BLOCK GRANT IMPLEMENTATION

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BEFORE THE

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INTERGOVERNMENTAL RELATIONS

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BLOCK GRANT IMPLEMENTATION

WEDNESDAY, MAY 5, 1982

U.S. Senate,
Subcommittee on Intergovernmental Relations,
Committee on Governmental Affairs,
Washington, D.C.

The subcommittee met at 9:30 a.m., in room 4232, Dirksen Senate Office Building, Hon. Dave Durenberger (chairman of the subcommittee) presiding.

Present: Senators Durenberger and Danforth.

OPENING STATEMENT OF SENATOR DURENBERGER

Senator **Durenberger**. The hearing will come to order.

Today, the subcommittee is holding the first of two oversight hearings on the implementation of the 1981 block grants. We will have only two witnesses this morning: Governor Bond of Missouri and Governor Lamm of Colorado. They will both be testifying on behalf of the National Governors' Association. Next week we will hear from other State and local officials, the U.S. General Accounting Office, and representatives of several human resources organizations.

Last week this subcommittee held a hearing in Minneapolis on the subject of the President's New Federalism, with Governor Snelling and others in attendance. One of the witnesses was a self-described unreconstructed Federalist. By "unreconstructed" I believe he meant to say he still doesn't trust the States. By "federalist" I think he meant to say that only the Federal Government has the capacity to fulfill his visions of a just society. I hope we are about to find out whether or not we can trust the States. For me, the answer is in these hearings.

Last year, under the worst possible fiscal and administrative conditions, the States were asked to assume responsibility for nine new block grants. The President proposed six new block grants in March of 1981. By that time, the budget planning cycle was nearly complete in many of the States. Legislatures were in mid-session, moving to adjournment. The nine block grants were authorized by the Congress in the Budget Reconciliation Act which did not pass both Houses until the end of July. By that time, 48 States were already 1 month into their fiscal year.

In September, the President's fall budget initiative introduced new uncertainties. He requested an across-the-board 12-percent cut in block grant appropriations below the reconciliation level.

On October 1, 1981, States were expected to begin new block grant implementation, and most of them did. However, October 1 was also the day on which the bulk of the regulations for the new block grants were being published.

It wasn't until mid-December of last year that appropriations for the block grants were finally made by the Congress. In the end, Congress had merged 57 programs into 9 block grants. Total funding had been cut 13 percent, from $11.3 billion to $9.8 billion. Although some new administrative flexibility was provided, many of the mandates and requirements were left in place.

That is all, of course, last year's news. The surprise is that we won't be making any headlines with these hearings. Under the conditions I have just described, the 1981 block grants should have been a total failure. We did everything we could, here at the Federal level, to make it difficult for the States to succeed.

Yet, the record of this and next week's hearing will be, I think, largely positive on the 1981 block grants. The question is whether this is a testament to the compassion and the capacity of the Federal Government, to the wisdom of Congressmen here in Washington; or, is it the best possible evidence that it is time to trust the States? In my view, 50 State governments have saved our bacon on the block grants, and they did it despite countless handicaps imposed by some of the unreconstructed Federalists here in Congress.

I wish we could make headlines with this story. If the American public really understood what happened in 1981, we might all be New Federalists. We could, once again as a nation, find the compassion and the capacity to fulfill our commitment to a just society.

With that, we will move to our first witness. I will leave his introduction to my colleague, Senator Jack Danforth, who is a member of this subcommittee.

Jack?

OPENING STATEMENT OF SENATOR DANFORTH

Senator Danforth. Mr. Chairman, thank you very much for the privilege. I am the unofficial chairman of the board of the Kit Bond Admiration Society of the world. Kit Bond and I started in government on exactly the same day—in State government, I might say. He has served with the attorney general's office. He has served as State auditor, and he is now in his second term as Governor of our State. He has viewed our State government, and particularly Federal-State relations, from three different vantage points over a 14-year—it seems amazing—over a 14-year period of time.

I know he has thought very deeply about the relationship between the Federal Government and the State governments. I know he has had the experience of witnessing Washington using State governments as almost an administrative arm. He has experienced the fact that this arrangement has not worked very well. I also think that Governor Bond, himself, is testimony of the fact that State governments are very competent, are close to the people, and are able to discern their needs and serve them.

So often we, in Washington, have the view that State and local governments just cannot do it unless we tell them precisely how to do it, when to do it, and what to do. I think that is clearly an erroneous view of the competence, the character, and the will of State and local governments.

I am delighted to be here in his presence. I am looking forward to hearing his testimony.

Senator **Durenberger.** Thank you very much.

Governor Bond, after that, you can take all the time you want to prove he was right; or, you can speak on the subject [laughter], either one. Thank you for coming. We welcome you.

TESTIMONY OF CHRISTOPHER (KIT) BOND, GOVERNOR OF MISSOURI, ON BEHALF OF THE NATIONAL GOVERNORS' ASSOCIATION

Mr. **Bond.** Mr. Chairman, my name is Christopher Bond. I am Governor of Missouri.

I want to extend my deep thanks to Senator Danforth for those very kind remarks. I would like to say that they were simple justice and long overdue, but modesty and some regard for the truth force me to issue a disclaimer. When Senator Danforth and I both tried to get into politics in 1968, he was headed for State government and I was headed toward Washington. Fortunately, the good people of Missouri had the sense to keep us both in Missouri at that time. I had the opportunity of working for Senator Danforth as he began central reforms in State government in the attorney general's office.

As Senator Danforth has stated, I am particularly interested and concerned about the issue of the Federal-State relationship. It is a real privilege for me to testify before this subcommittee on behalf of the National Governors' Association on the subject of block grant implementation. I would like to note that we, as Governors, do appreciate the sensitivity of this subcommittee and its long bipartisan commitment to the needs of State and local governments.

Mr. Chairman, your comments on the difficulties caused by the manner of implementing the block grants last year, particularly the uncertainties, the funding cuts, and their timing, are ones to which we in Missouri can warmly relate. I will not dwell on those problems of last year, other than to say we do appreciate the fact that you recognize them.

I am a very strong supporter of the concept of block grants and other Federal policies that would return program planning and administrative responsibilities to the States. The States are still constrained by some 500 separate categorical programs and their attendant regulations, over 1,000 separate mandates on State and local government, and a paperwork burden estimated in 1977 to have cost some $5 billion.

We did some checking in Missouri to see if we could come up with an estimate of how much this paperwork burden costs Missouri's taxpayers. We found that in fiscal year 1981, before block grants really were implemented, we spent an estimated $8.4 million to comply with 1,400 pages of Federal rules and regulations for health and social services programs. Some, but not all of these, of course, have been reduced. The thing that was most appalling to me was that the Federal health programs alone required some 2,202 separate reports. Our State division of health estimated that it took the equivalent of one employee out of five to comply with all of the Federal reporting, regulation writing, and reading requirements. Certainly this time could have been better spent in delivering needed health care services to our people.

We feel the block grant concept is one mechanism that provides the States some needed relief from the redtape and the inflexibility of rigid categorical programs; yet, it provides us the resources we need to deal with high priority areas. The nine block grants approved in 1981 represent only a fraction of the total number of Federal grants-in-aid to State and local governments. I must say to you that the flexibility originally included in the President's block grant proposals was sharply compromised in the legislative process, as you have already noted. Most block grants had their funding substantially reduced. Moreover, the States had little opportunity to plan for the assumption of the new responsibility. Nevertheless, a majority of States elected to assume the available block grants at the earliest possible date.

Mr. Chairman, in order to provide you and the subcommittee with detailed information on the implementation of block grants in each State, with your permission, I would like to submit a comprehensive study sponsored by the NGA and the Council of State Planning Agencies.[1] I think that you will find this to be a most-informative document.

Senator **Durenberger**. Without objection, that report will be made a part of the record.

Mr. **Bond**. Thank you very much.

Again, with your permission, I would like to focus the rest of my testimony on some of our experiences in Missouri, with the thought that these are probably indicative of the response and the activities in many other States. To give you an idea of how we approached implementation, I would like to spend just a few moments to describe the mechanics of our block grant planning process.

Even before the passage of the legislation we started to develop a comprehensive, decisionmaking process so we could take on block grant responsibilities in October 1981. I set up a task force to coordinate the delivery of services. This task force consisted of the heads of the departments that had jurisdiction over the programs which were included in the block grants, my director of budget and planning, and my executive assistant. This group sponsored a series of public hearings across the State. The hearings were conducted by the departments responsible for the programs in each block.

After those hearings, there was a careful review by advisory committees made up of service providers and client representatives. Following the reports of these advisory committees, and on the basis of comments received at the public hearings, tentative program funding decisions were made.

Next, we took these program decisions and tentative allocations to our general assembly to work with them in developing an overall policy for administering the block grants and distributing the funds, with particular attention to absorbing the funding reductions. I would say that in Missouri our legislative committees took their responsibilities very seriously. They studied the materials carefully, listened to their constituents, and offered us helpful modifications in our plans so that we could implement the block grants in the most effective manner.

Turning to the individual block grants, let me describe how Missouri expects to receive and handle approximately $26 million in

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[1] See p. 292.

Community Development Block Grant funds which we will distribute to our nonentitlement small cities and counties. Actually, because of multiyear commitments previously made by the Department of Housing and Urban Development, we will have approximately $17 million to distribute to new applicants.

Based on our consultations with local officials and other interested parties, we have designed a competitive program for the distribution of the funds based on need. We designed the Missouri program to fund four categories of activities: Economic development, housing rehabilitation, public facilities, and emergencies threatening health and welfare. Of the $17 million to new applicants, 35 percent will go for economic development; 60 percent will be split between housing and public facilities, based upon the percentage of dollars requested in each category; and 5 percent will be set aside for emergencies.

In designing our program, we made a concentrated effort to simplify substantially the applications process in order to take away the advantages of grantsmanship and make it easier for small cities and counties to compete.

The criteria for judging applications will balance need with opportunity for economic development. Also, we are putting together a comprehensive technical assistance program to help local officials participate in the program.

We would note with some pride that we think we will be able to run the program more efficiently and in a less costly manner than HUD. For example, we plan to administer the small cities program with only 12 full-time employees; whereas, previously, the Federal Government required 31 persons working in 2 regional offices to run its program for the nonentitlement areas.

In a second area, the social services block grant, funding for the consolidated programs was cut 20 percent by Congress. Our State lost another 2 percent due to a decline in population in Missouri. On the good news side, the SSBG eliminated certain costly and time-consuming planning and reporting requirements. As a result, Missouri was able to make major reductions in staff, equipment and other administrative expenses. The State achieved substantial additional savings by consolidating reporting requirements for a variety of programs. The bottom line was that we were able to cut the cost of administering programs in this block grant by roughly one-half.

When we turned our attention to improvements in the existing day care reimbursement system, we found that Federal requirements and cost-based rates had produced inflationary reimbursements. These were higher than the amount charged in the private sector for similar services. By moving to a standard negotiated rate, we were able to reduce costs by $1.3 million without curtailing the amount of day care time provided. In addition, thanks to the new flexibility provided under the block grant, we encouraged day care centers to negotiate copayment arrangements with clients who were able to pay something for their services.

Finally, we were able to minimize the impact of the SSBG funding reductions by transferring into the block some $4 million of Low Income Energy Assistance funds. Through these measures, Missouri successfully held overall reductions in client services to approximately

13 percent, whereas the total cuts in funding had been 22 percent for our State.

In addition to the above program modifications, we made other economies in our own very tight State budget in order to find additional State dollars to minimize the impact of Federal funding reductions on children's programs. Last week, the Missouri General Assembly approved partial funding for several new children's initiatives. These will provide preventive health services and care for abused and neglected children that will allow them to remain in their home environment.

I have already mentioned the Low Income Energy Assistance block grant. I would like to comment on that third block grant briefly.

In contrast to the funding reductions in other areas, this block grant actually received a slight funding increase in fiscal year 1982. Problems with the program in Missouri in fiscal year 1981—including dissatisfaction of the energy providers because of the redtape and the difficulty of participating in the program—caused over 1,000 of the providers to drop out of the program. In Missouri, in order to attract these providers back into the program, we developed a new central service delivery system which guaranteed time reimbursement and required minimal paperwork.

In addition, we feel we were able to further improve the cost effectiveness of Missouri's LIEA by modifying a benefit formula that inadvertently had discouraged energy conservation. These changes and the appropriation of supplemental funding made it possible for us to dedicate some $5 million of funds under LIEA to weatherize approximately 3,700 homes of the elderly and handicapped in our State.

You will note that many States, including Missouri, chose to transfer funds from the energy block grant to other high priority programs in order to distribute funding cuts more evenly among energy assistance and social services programs. We are concerned by the efforts of a few Members of Congress to use the fact that States had exercised the transferability option as an excuse for congressional reduction of LIEA funds. Frankly, we found that transferability offered a practical solution to one of the major problems of the grants-in-aid system—namely, the inefficient distribution of Federal funds among categorical programs. In Missouri, had we not been able to transfer some funds from LIEA, vital protective services for children would have been stopped for many months.

Moving to a fourth area, the alcoholism, drug abuse, and mental health block grant, we have found that a reduction in the Federal regulations has enabled us to make great strides in improving the effectiveness and efficiency of our mental health programs. Prior to the enactment of our block grant, I must tell you that State mental health planners were faced with an uncoordinated network of mental health services. We were unable to effectively implement statewide funding priorities because we had no authority over the use of Federal moneys. As a result, a significant amount of Federal money was being spent for the treatment of short-term episodic mental illness, rather than chronic illness which is responsible for the major part of the repeat, long-term mental health care expense in the State. Basic mental health services were not available in some parts of the State, while wasteful duplication existed in other areas. Finally, both State and privately operated facilities were expending significant amounts of money in complying with separate State and Federal mandatory service requirements, as well as complicated accounting and reporting procedures.

Under the ADA/MH block grant, we are now able to target Federal resources to chronic illnesses and other mental health problems which we know are most critical in our State. Mental health centers have been able to significantly reduce their administrative overhead because they are no longer forced to comply with two separate sets of regulations. Finally, as a result of new service area boundaries, wasteful duplication of services has been eliminated, and mental health services will now be available to previously underserved areas of the State.

Funding for the maternal and child health block grant was reduced by 12 percent. This funding reduction required us to reexamine our spending priorities very carefully. Our first step was to cut funding for some sub-State specialty projects established under the old categorical programs on a pilot project basis. Reductions in these projects raised approximately $800,000, which we passed through to counties in the form of block grants. Service mandates under these block grants were limited to an established minimum package of basic public health services for children, such as well-baby care and health screening. In this way, we were able to pass administrative flexibility on to local governments. For the first time, eight counties in Missouri that did not have public health offices will provide a significant amount of child health care services. In fiscal year 1983, we plan to use State funds to increase the amount of block grant funds available to the counties.

In summary, I would say that Missouri's block grant implementation record illustrates that States are competent to assume greater responsibility for identifying and serving the needs of their citizens. During the past year, we made every effort to use the flexibility provided under the block grants to set some intelligent funding priorities, to target funds to previously underserved sub-State regions, to eliminate wasteful duplication of services and to abolish unnecessary reporting and administrative requirements.

By concentrating on staff reductions, other administrative savings and more efficient delivery systems, Missouri has been able to minimize the effect of funding reductions on services. Where service cutbacks could not be avoided, provider groups and clients were closely involved in setting funding priorities. In addition to developing more efficient and effective ways to use Federal funds, Missouri has increased State funding for social services and public health services which we feel are primarily State responsibilities.

As you consider Federal budget proposals for fiscal year 1983, we hope the activities and the performance of the States during the past year will encourage you to support further increases in administrative flexibility.

Thank you, Mr. Chairman.

Senator **Durenberger**. Thank you very much, Governor.

I understand that we are going to go until 10:50 because both of you are going to be involved in a meeting at about 11. So, we will move now to Governor Lamm, and then we will go to our questions.

Governor Lamm is the Governor of Colorado. He is a native of Madison, Wis., and a graduate of the Business School of the University of Wisconsin and the Law School of the University of California.

He served in the U.S. Army, was with the California Franchise Tax Board, and was associate professor of law in Denver. He was elected to the Colorado House of Representatives in 1966, and served as assistant minority leader of the House for 4 years. In 1974, his last year in the House, he was designated by Time magazine as one of 200 young American leaders—along with Wendy Anderson from my State. In 1975, Governor Lamm was elected to his first term as Governor; he is now in his second term. He serves on NGA's executive committee.

We welcome you to this hearing, Governor. Please proceed with your testimony.

TESTIMONY OF RICHARD D. LAMM, GOVERNOR OF COLORADO, ON BEHALF OF THE NATIONAL GOVERNORS' ASSOCIATION

Mr. LAMM. Thank you, Senator.

I deeply appreciate the very thoughtful way this subcommittee, and in particular the two Senators in attendance today, have approached the block grant issue. You are doing the day-to-day work of government, and it is of immense importance. It greatly affects the work of State legislators, mayors, city council people and Governors. This is really where so much of the undramatic but immensely important part of the government takes place.

I think for the block grant concept, which, as you know from Governor Bond's testimony, has the strong support of the Governors, this is a time for review. This is the time for consolidation. This is the time for thoughtful assessment as to how the concept is working out there. It is working, but with some hiccups, some serious hiccups, that I think all Governors view with concern.

I would like to summarize my statement and go through it fairly fast so we will have plenty of time for discussion. I sense that that is the most important thing for both of you.

Even with the proposed eight new block grants and the three expanded initiatives, just 25 percent of the grants-in-aid would be provided through more flexible block grants in 1983. This is, of course, only slightly above the 21 percent level of the previous year. In other words, aid provided to State and local governments is still largely in the form of categorical aid, which is often too restrictive to adequately meet State needs.

Block grants are an important mechanism for reconciling the principles of federalism with the realities of national concern and local diversity. The Governors believed so firmly in the block grant concept last year that we offered to exchange a 10-percent cut in consolidated programs for enactment of the block grants. We offered this incentive in the belief that increased flexibility would provide an opportunity for administrative savings and retargeting worth a 10-percent funding reduction. Instead, we got larger cuts and, as you know, more limited flexibility. I would like to discuss the magnitude of the budget cuts and illustrate that the lack of flexibility has caused us a certain degree of problems.

First of all, there has been a certain amount of damage, not irreparable, to the whole concept of block grants. The term is an umbrella under which many different things huddle. To preserve it we must try to identify exactly what is a block grant. One thing we must clarify is whether or not a block grant is just a disguised term for reducing vital services. One human service administrator in another State said, "Block grants mean more authority to do less." I think that statement is an illustration of the impact of the budget cuts on the block grant concept. The two were extricably intertwined.

I have attached to my testimony a table showing the dollar levels associated with the block grants enacted in 1981 and another table illustrating the President's fiscal year 1983 recommendation.[1] The tables show that President Reagan's block grant proposals for 1983 expand upon the use of the block grant as a budget cutting tool.

In fiscal year 1982, total funding for newly enacted block grants was reduced by 13 percent, a total cut of $1.5 billion. These cuts included a 19.8-percent reduction in social services block grants, a 24-percent cut in the maternal and child health care program, a loss of 26.4-percent in the community services block grant and a 21.3-percent cut in the alcohol, mental health, and drug abuse programs. These cuts have had a substantial impact upon persons who rely upon these programs.

The fiscal year 1983 budget proposes new cuts in the block grants. These reductions are hard to track because it would be confusing to compare the reconfigured programs from one year to the next. For example, it appears that the administration has actually budgeted more money for the women, infants, and children supplemental feeding programs for fiscal year 1982 than was budgeted in fiscal year 1982. Because of the program changes involved, the WIC program—women, infants, and children—was combined with the maternal and child health block grant. In fiscal year 1982 the WIC block grant was funded at $950 million. The fiscal year 1983 proposed funding for the block grant is $1 billion. For the WIC services to be provided at fiscal year 1982 levels, the maternal and child health care block grant activities would have to be eliminated under the combined block. The combined programs are actually slated for a cut of almost 22 percent.

Under the administration's fiscal year 1983 proposed block grants, the constituent programs proposed for consolidations would be reduced overall by 16.2 percent from fiscal year 1982 to fiscal year 1983. These same programs suffered reductions of over 21.6 percent from fiscal year 1981 to fiscal year 1982. Thus, the net reductions under the President's proposals will be over 34 percent between 1981 and 1983. These reductions reflect cuts in vital programs, such as child welfare services which will reduced by 18.3 percent from fiscal year 1982 to fiscal year 1983. They represent reductions of 32.6 percent in rehabilitation service programs for the disabled to achieve self-sufficiency. The most drastic cuts could be in the community services block grant program, which would be reduced by 71.3 percent.

So the question then has to be raised: Is it any wonder that more and more people have come to view block grants with concern, as a subtle way of cutting the budget—maybe not so subtle?

While the Governors have repeatedly supported consolidation to improve the efficiency and the effectiveness of the delivery of services, and the responsiveness to the people, we have not proposed using block grants for substantial budget cutting. In fact, we believe that the fiscal year 1983 reductions proposed by the President for block grants and for other programs will weaken the capacity of State and local governments to assume greater responsibilities in the Federal system.

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[1] See p. 55.

In addition to the use of block grants as a budget cutting device, block grants have been used as a means to propose fundamental alterations in the character of program funding, by converting programs for open ended entitlement status to "capped"—or close ended appropriation. For example, the fiscal year 1983 proposal to combine, cap and cut State welfare administrative costs in the food stamp, AFDC and medicaid programs under a "combined welfare administration block grant" radically restructures these important programs' programmatic and policy concepts which are essential to their administration. Open ended funding exists in these programs for a very good reason. It is difficult to estimate the costs involved and the level of services to be provided because they rise and fall according to need, not predetermined levels of funding.

The third problem in the implementation of the block grants has been the uncertainty of the block grant funding. Congress has funded the majority of the block grant programs this year under three continuing resolutions. What is very difficult to appreciate is the damage this uncertainty causes to the effective administration of the block grants at the State level. One of the primary advantages of the block grants is the flexibility it affords the Governor to plan a more rational system of service delivery for the citizens of the State. However, this planning process could be devalued when the funding level of the programs remain clouded through two-thirds of the budget year.

In addition to the legislative situation, there have been administrative uncertainties raised regarding the release of moneys and the granting of awards. A prime example of this extralegislative fiscal uncertainty affected the community services block grant. At the time of the First Continuing Resolution, the Office of Management and Budget apportioned the moneys not on the basis of the congressionally adopted level of $362 million, but rather on the basis of the administration's proposed funding level of $225 million. Similar problems occurred with each of the subsequent Continuing Resolutions. The House of Representatives has raised questions of impoundment violations. Thus, in the States vital administrative decisions as well as the delivery of crucial services were impaired by the on-again/off-again funding confusion that occurred at each round of the budget process for fiscal year 1982.

At the present time, community service grants to the States are not guaranteed after the third quarter, in spite of the fact that the Continuing Resolution provides for an appropriation for the remainder of the year. In a nutshell, if States do not know how much they are going to receive for the block grant programs and when they will receive it, how can they plan and how can they use the intended flexibility? How can they effectively administer the programs?

A fourth problem in block grant implementation relates to the transfer provisions. During the many years that the block grants have been under discussion, a central issue has been whether States should have increased authority to redirect Federal grants to meet the needs and priorities identified in those individual States.

An initial step toward limited flexibility was realized in the approval of the block grants in 1981. Most of the block grants allow for the transfer of a small fraction—about 15 percent of the total—and only, as a rule, to certain identified programs. When Governor Busbee testified before you last year, he provided an illustration of how minimal the flexibility provided by the transfer provision really is. He pointed out that the transfer allowed him to reprogram just $91,000 of the $3 million in block grant funds available to his State.

In spite of the limited flexibility they offer, the transfers are clearly filling a need in the States and are being used. It would be a mistake for Congress to act against the transferability provision of the block grants, as some members did in the Low Income Energy Assistance block grant supplemental by exempting $123 million from the transfer clause. These actions show a lack of support for the flexibility which the Governors believe to be the chief advantage of block grants. Given that the overall reductions in the block grants is 13 percent, the transfer provision allows priority setting and should be preserved.

Mr. Chairman, in providing you with a list of the problem areas, I do not mean to imply that the experience has been all bad, although the funding decisions have, indeed, created serious service problems. I believe the response of the States in accepting block grants indicates the success of the concept.

I think the work of the administration in developing regulations which are as simple and as clear as possible is another major implementation success. The regulations represent a strong effort to maintain the integrity of the block grants.

Another positive factor is the development under your leadership, Mr. Chairman, of boilerplate language for the block grants. This is a very important project and of critical importance to the States. A structure of this kind would be useful in giving guidance to Congress on future block grant legislation. Such a structure will go far in rationalizing block grant requirements and will help recipients administer the programs more effectively.

I thus find much to commend and very little to criticize in the Durenberger bill. It is carefully crafted to provide great flexibility to the States while assuring that standards of public participation, fiscal and program integrity, and minimal Federal agency interference are maintained. We are pleased to see strict limits placed on the authority of Federal agencies to devise administrative restrictions on grant recipients. It is imperative that the block grant concept be free from unnecessary redtape and needless problems over minor issues.

The NGA has recently transmitted the boilerplate language to State officials. We will ask them to evaluate the language and get back to us with their comments.

In summary, I really appreciate your work.

Senator Durenberger. Thank you very much, Governor.

Let me start the dialog with some of the problems and quotes that have been created on the notion of blocking. I think one of them Senator Danforth and I both experienced in the Senate Finance Committee last year where we had three or four of these blocks.

For example, one of them, the title XX social services, was going to be blocked. Nobody told the folks that it had actually been blocked about 10 years earlier. The whole notion had been that we are going to block categoricals, cut out 25 percent of the money—all that was a waste of some kind on the administrative side—and we will be able to live with that much less money.

I guess the average reduction for all of the 1981 blocks was something in the neighborhood of 13 percent. However, the administration is coming along, in its budget proposal of this year, with another 16-percent cut.

I wonder if either or both of you would react to the issue of how many administrative dollars are actually saved when we move from categoricals to blocks. I don't expect a specific percentage, just some general reactions to the notion that we can save large amounts of money by blocking categoricals.

Governor Bond?

Mr. Bond. Mr. Chairman, I think when the block grants were initially proposed, as Governor Lamm has indicated, we felt that at least 10 percent of the cost of the programs could be saved by eliminating administrative overlap. In the State of Missouri, as I indicated in my testimony, perhaps as much as 20 percent of the funds in the health care programs went to administrative Federal-State reporting requirements and regulations. In our social services block grant, we were able to cut administrative costs in half as a result of the flexibility of the block grants.

I don't think that you can put a precise dollar figure on each area, but we believe that 10 percent is a realistic amount that can be saved by eliminating restrictive Federal-State requirements. Obviously, there is still going to be some administrative expense.

In addition, I would say, as I indicated in my testimony, that we were able to use the flexibility provided under the block grants to target some of the dollars so that program payments were more cost-effective. We also have changed to different forms of reimbursement which do not reward inefficiency in the delivery of day care services or waste in the use of energy resources.

I suppose 10 percent is the figure we would suggest that can generally be saved on the administrative side.

Senator Durenberger. That is an across-the-board application, then, to a lot of the categoricals which are under consideration. I judge from your testimony that we ought to look carefully at each of the areas. We ought to realize that there will be a different amount of opportunity in each of the blocked areas—depending on the constituent groups, the amount of categoricals, and some of the mandates which are associated with those categoricals. Is that correct?

Mr. Bond. That is correct.

Senator Durenberger. There is another kind of savings that I think is presumed in all of this. Those of us who pass out money through the categorical-type plans at this end of the governmental system are aware of the fact that we try to treat everybody the same. We try to make sure that everything gets into all the district that we represent. So, we do things like the Low Income Energy Assistance formula which was really designed to get at high heating bills as a result of oil decontrol. However, we ended up allocating a substantial amount to places like Hawaii or American Samoa. I guess last year Hawaii didn't even apply for its money, which is to its credit.

Looking at that as an area of savings—in other words, changing the way we make decisions about high priority areas versus low priority areas, and shifting that decisionmaking to the States—have you any estimate for us about what savings might be achieved by the blocking process?

Mr. **Bond**. I am not sure that major savings can be achieved; but we definitely feel that we have been able to target priorities. I will defer to Governor Lamm on that.

Mr. **Lamm**. The lack of empirical evidence that we have in front of us suggests that we should approach the question cautiously. I think in federalism we are building a structure which is going to take more than 1 year. We must do it slowly and thoughtfully. I think the only number we can offer, as Governor Bond said, is 10 percent. I think all of us, having seen the effects of last year, will be very cautious about having too much more thrown at us, until we gain some empirical evidence.

Senator **Durenberger**. There is a great concern among those who have propounded and those who have a commitment to the categorical processes. They are afraid that priorities will get distorted to a degree at the local level if we give you portability, flexibility, and transferability. I guess I make the presumption that it is a little early to know how much use has been made of portability or transferability. Maybe one of the reasons is because you're not sure how long we are going to stick with this program, or how much more we are going to cut out of it.

Is it your view, both of you, that not much use of portability or transferability, or whatever wé might call it, has been made so far? However, to the degree that we commit to a logical blocking process, that portability can be used as a vehicle for continuing to meet the highest priorities?

Mr. **Lamm**. I don't think you should take the first year of utilization as indicative of what is potential.

Mr. **Bond**. As I indicated in my testimony, we feel that the child welfare and protective services funded under the social services block grant—for which substantial funds were cut in Missouri—was of such high priority that we had to use the portability of the Low Income Energy Assistance to address those needs. In addition, we cut other State programs. The general assembly in Missouri went along with appropriating funds to pick up cuts in Federal programs. In the past, this has been an absolute prohibition for the Missouri Legislature. They have always said, "We will not pick up abandoned Federal funds." However, in the children's services area, the cuts would have been so harsh that if we had not had the advantage of portability, we would have been forced to take State funds from other vital programs.

We have had problems in Missouri that were different from those in Minnesota or Colorado. We have had to use a good deal of flexibility to deal with some of the particular problems that we feel are most pressing in our State, but may not be as high a priority to other States.

Senator **Durenberger**. That leads us into the perceived problem of competition—that is, the competition between our constituents and the various needs that they have. We have answered that, here, by eliminating competition through the categorical grant process. We have grants for each particular group. Even when their needs overlap, we tend to focus on the categorical classifications of people out there.

The great fear, of course, when we block is that we bring elderly people into competition with children, and disabled persons into competition with persons who need money for education.

What has been the experience, to date, with regard to the competition that has been created by the blocking process?

Mr. LAMM. That is no different than what Governors and State legislatures face on a day-to-day basis. I really think that it is all within the normal scope of the give-and-take of State politics. I think that obviously different decisions have been given in different States. I think that overall, the legislatures and the Governors have stepped up to the plate and have made their decisions. Sure, there is competition, but there is competition for State tax revenues in the first place.

I think the block grant allocation process is just a continuation of the existing decisionmaking process that occurs whenever a State writes its budget.

Mr. BOND. Basically, we would have to say that our legislators are extremely close to the needs of our citizens. We are there in the State worrying about the needs of the elderly, the disabled, the handicapped and our children. We are making, for our State, the priority judgments that you are making for the Nation as a whole. To the extent that Federal legislation and regulation allows the State priority-setting system to operate, we feel it results in better decisions on computing needs within the State, because Missouri has different needs from those of other States. That, simply put, is the basis on which we support the concept of federalism.

Senator DURENBERGER. Senator Danforth?

Senator DANFORTH. I can remember fighting this battle on the floor and doing my best to uphold the position of the Finance Committee. A stirring argument was made in opposition to my position to the effect that there are no orphans in the gallery, there are no battered children in the gallery and so on. It was as though taking a position in support of block grants as opposed to categorical grants was taking a position against the needy, the disenfranchised, the weak, the poor, and the children.

In your view, has it turned out that way? Is it turning out that way? Would you say that the move from categorical grants to block grants is a move from sensitivity to insensitivity, from compassion to callousness?

Mr. BOND. Senator, I am offended by the thought that the orphans, the disabled, and the handicapped can somehow better get to the galleries of Congress than they can get to the legislative halls in our State capitals.

I wish to point out to you that the major budget initiatives adopted by the Missouri General Assembly this year related to abused and neglected children, children in foster care, or children in homes with real problems where the State can provide some support to assist them. Of course, the records of some States in meeting these needs are going to be better; some are going to be worse. To say, in this day and age, that State government is insensitive to those needs is purest fantasy. I regard it as a slanderous assertion.

Mr. LAMM. Let me give you a political science sort of argument. It seems to me that you people back here already have such an avalanche of things coming at you. I would appreciate it if you would solve the Middle East crisis, get inflation under control, and think about——

Senator **Danforth**. How about getting the budget balanced?

Mr. **Lamm**. That would be nice. It is laudatory, but I think it is unnecessary to worry about potholes and other things that are adequately taken care of at the State and local level. There is only so much time and energy that you have back here. I would hope that you would address the big issues.

Senator **Danforth**. That is the political argument. We are all politicians—you are; we are. That is exactly the political argument.

We had a domestic violence bill on the floor. The issue was whether or not to create yet another categorical grant program—this was 2 or 3 years ago—for domestic violence. We had already provided for it under title XX. I can remember making that argument on the floor: "Look, we have a block grant that allows the States to put money into domestic violence and into the treatment of alcoholism, drug addiction or whatever else they want to do in this broad category. Why have a specific grant program for domestic violence?" The argument on the other side was: "But there are people who are being brutalized. We have to be sensitive toward them. Therefore, if we are going to be sensitive, we must have a categorical grant. We must have a separate program for them."

Senator **Durenberger**. Let me briefly make the argument on the other side—in this case, the "unreconstructed Federalist" whom I spoke about earlier.

A lot of the battered women's programs initially started in Minnesota. In fact, I was involved in a cooperative philanthropy effort to start the first home for battered women. I just watched it grow after that. We had two successful ones in Minnesota. People around the country said, "Gee, how did you do it?" So, the Minnesotans started going around the country speaking on how you do this. Of course, they were doing it with contributions, free work and that sort of thing.

As the word spread around the country, people would go to their local communities to try to get local support. They didn't find much support, so they agreed the best place to go was Washington. We could design a program here, through the categorical grant process, which would take the wonderful things done with a little money in Minnesota and apply them all over the country.

I guess the unreconstructed Federalist would say that if Mississippi, Colorado, or Missouri haven't gotten the benefit, somehow, of the insight into this problem, or haven't the fiscal ability to respond to it, then the Federal Government ought to bring Minnesota to the rest of the country.

Currently, there is a lot of concern as States have difficulty coming to grips with their own budgetary problems, and with the unwillingness of the taxpayers to meet the needs of the people. The States are going to pick up on some of these things. I'm sure that you have sensed that because you listen to the same people we do. I choose to think that this is a temporary phenomenon. Until we do come to grips with the budget, people are tightening their willingness to pay taxes all up and down the line. It doesn't mean, though, that they are insensitive to the needs of the people.

I think we just need to deal with how believable our Governors are when they come and say that they and the legislatures can do a better job of setting priorities with the same or fewer dollars. Right now, that is a fairly tough sale.

Let me ask another question because I am curious. It may be one of the reasons we are not able to come to grips with the budget. By some miracle, we have put off the debt ceiling bill beyond the time we thought we would have to raise the limit on the national debt. I suspect there might be a couple of reasons for it. One, there are more revenues coming into the Federal Treasury than this administration is willing to tell us. Two, I suspect somebody over in OMB—and I wouldn't accuse Dave Stockman of providing leadership on this—is just refusing to commit funds to the level authorized and appropriated by Congress.

One of you mentioned this, I think, with regard to the community services grant. We have experienced it with regard to the Low Income Energy Assistance program. I wondered whether or not these were just isolated cases—a $100 million here, a $100 million there—or whether OMB has a more pervasive impact by holding back money that we have appropriated and authorized.

Have you seen it in any other areas?

Mr. LAMM. I wouldn't know.

Mr. BOND. I would say that the most distressing thing we have run into—I suppose it comes from OMB—are the totally unrealistic assumptions that all social programs can achieve a 3 percent and then a 2 percent, 1 percent, zero error rate. These are totally unrealistic standards, standards which the Federal Government obviously cannot meet and no government in the real world can meet.

It leads one to the strong suspicion that the Federal Government is not interested in saving and making legitimate budgetary reductions, but is, in fact, welching on its obligations. It is promising more than it intends to deliver and is stiffing the States—which are faced with very tight budgets. We are being forced to pick up the programs promised by the Federal Government.

We have been concerned about the holdbacks in funding. We are also concerned about some of the proposals to cap expenditures, where we do not have the ability or the power under existing Federal law to affect a savings. These particular "budgetary" efforts are most concerning to us. We do not even feel that these proposals are in good faith.

Senator DURENBERGER. Let me ask you another question which relates to competition—that is, the competition between local governments and agencies for grant funds. The question is premised on the fact that most of our old categoricals are in the nature of project grants.

I think, Governor Bond, you talked about the Small Cities CDBG program. When this program was turned over to the States, the Minnesota Legislature in its wisdom just decided to spread the money around as though it didn't have the ability to address the needs on a grant-by-grant basis. They just set up a formula grant and, basically, distributed the money over the whole State based on population. The Governor vetoed that bill. I heard you talk differently from a Missouri perspective.

I am curious to know what the general approach has been around the country. Do States have, as yet, sufficient experience with the project grant process, so that we might trust them to use the Missouri models, rather than the Minnesota models, as we turn back some of these programs in the form of blocks?

Mr. LAMM. We have a study that shows that of the 34 which have so far decided to accept the small cities block grants, 33 of them targeted the money and did the weighing process based on priorities and needs. They didn't just prorate the money.

We would like to submit this report for your consideration.[1] I do think that the process you described is the exception certainly not the rule.

Senator DURENBERGER. Without objection, it will be included in the record.

Mr. BOND. We think only about two or three States have gone that route. I am not willing to say with absolute confidence that the process Missouri has adopted is right and the process Minnesota chose is wrong. However, when a legislator in Missouri proposed a distribution formula for the CDBG funds similar to the one Minnesota is using, it was not adopted. We opposed it very strongly. The local government officials generally agreed with us that the amount of dollars would be so small that they would rather, for the welfare of all the communities and all of the citizens of Missouri, see these dollars go to those communities which had some good programs, could demonstrate a need, and could show there would be an impact on economic development, housing rehabilitation, or public facilities.

We will soon have the experience in Missouri to compare with that in Minnesota. We hope our approach is correct. One good thing about having laboratories at the State level is that we will see if Minnesota may have been in the minority but had the right view.

Senator DURENBERGER. Let me ask you some general questions about the future of blocking. This year, the administration's recommendation lays out eight more blocks. We have only seen two specific bills so far.

I would like to ask you both about the welfare administration block grant. What is your reaction to that proposal?

I am also curious to know about the blocking of Low Income Energy Assistance with other emergency assistance programs. That is important to those of us who are on the Senate Finance Committee, because we are going to have to deal either with that or with the impact of the alternative—the impact of the administration's recommendations to include Low Income Energy Assistance in computing food stamp benefits. My inclination, for example, is to accept the blocking notion. I suppose there are savings, as you indicated earlier, in welfare administration.

With regard to the combining of Low Income Energy Assistance with emergency assistance and the impact on food stamps, personally, I really hesitate to include the Low Income Energy Assistance in computing the earnings disregard for food stamps. However, my sense is that we could reduce the total amount of money. If we fought off that one, we could then reduce the total amount of money from $1.8 billion that is going into Low Income Energy Assistance, to something less than that.

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[1] See p. 421.

Do you have any reactions to that thought?

Mr. **Lamm**. Let me underscore what Governor Bond said in answer to an earlier question relating to the error rates. I know that somebody someplace says, "Well, it must be a lot easier to reduce error rates." But please understand a couple of important concepts. One is that we get charged with client caused error rates. There are errors that are completely outside our ability to control. All of a sudden we get charged for them. Then all of a sudden we find substantial penalties coming from them and from the ever changing regulations.

At the same time, we have to deal with the practical delivery of services that we have to administer out there. We have to train, retrain and then retrain people to this ever changing kaleidoscope of regulations coming at us. The SSI population is much more stable than the AFDC, medicaid, and food stamps population, in which clients' status is constantly changing. The SSI error rate is above 5 percent. In this context, a Federal regulation, to hold us to 3 percent, is the kind of thing that scares us.

The reasons for the Governors' opposition to the welfare block grant are the proposed budget cuts and the unrealistic shifting of some of these administrative costs to the States. We are on record as opposing it.

Mr. **Bond**. That is correct.

Many of our States have already had to cut administrative costs substantially. This is what we did to achieve at least part of the savings necessitated by last year's budget cuts. For Congress to come in now with more program revisions, but hold us to 95 percent of fiscal 1982 administrative expenses, is purely dumping additional costs on the States, costs that we cannot avoid.

To echo what Governor Lamm has said, in many instances, we are forced by a Federal mandate to carry out procedures which result in higher error rates. For example, when we are prohibited by Federal law from obtaining collateral information on the eligibility of clients, or when we are required to act on various applications within a limited time, we have higher administrative costs. We have no way to avoid a certain level of errors. To suggest that we can cut those administrative costs simply because the Congress imposes a limit on the expenses is not realistic.

We would be far better off if Congress would respond by giving us the flexibility to institute necessary controls which we think make sense. Obviously, to the extent that we have the flexibility in block grants, we will do things such as establish prospective reimbursement for various services, initiate copayments where it is feasible and take other steps which will bring costs under control. But to issue a mandate and say, "These expenditures will be held at 95 percent of the existing level," is totally unrealistic.

Senator **Durenberger**. Let me ask you both to respond, either in a specific or a general sense, to the problems we have created with the Low Income Energy Assistance program.

Jack and I were both, consistently, on the prevailing side in supporting the windfall profits tax. We strongly supported a dedication of much of that tax to relieve the economic burden of those who were going to have to pay for that tax, and also to move in the direction of alternative energies and conservation.

However, it was our contemplation, back in the summer of 1979, in the Senate Finance Committee that the economic consequences of decontrol would last in the neighborhood of 3 years. Therefore, we would structure a Low Income Energy Assistance program that would be relatively uncomplicated. We would block it back to the States, after we had gone through one quick experience with SSI, with the notion that after 3 years, we would get out of the business.

Well, my sense is that the 3 years are up, but they are up at the same time that we are in the middle of a recession. People are just having difficulty in meeting a variety of needs. We may not be faced with escalating home heating oil prices right now, but we are faced with escalating natural gas prices and electricity prices as a consequence of increases in the cost of coal and other items. So we are in the danger, it seems to me, of making permanent another welfare program called Low Income Energy Assistance. To a degree, the administration has recognized this by saying, "Here is another one you have to factor into food stamps for determining the earnings disregard;" and, at the same time, "We want to reduce the amount of money that is going into the program."

I guess I need your general observations on this subject since we can just cut the whole thing out on the theory that its time has ended. We can go back to taking care of the energy needs of people through cash assistance programs.

Mr. **Lamm**. Let me see if I can remember this.

On behalf of the NGA, I met with Senator Hatfield concerning additional flexibility. About 85 percent of the money has to be paid for low income. Is that it under the terms?

Senator **Durenberger**. Yes.

Mr. **Lamm**. It was an 85 percent figure. We wanted some additional flexibility to do energy conservation.

Senator **Durenberger**. Weatherization, et cetera?

Mr. **Lamm**. Weatherization, yes. I passionately believe that one of the ways to keep heating bills to a minimum is to undertake as much weatherization and energy conservation as possible.

I sense I am not answering the real thrust of your questions. I will give them further thought and will send you a more detailed response.

[The material follows:]

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1876

Richard D. Lamm,
Governor

June 14, 1982

The Honorable David Durenberger
U.S. Senate Office Building
Washington, D.C. 20015

Dear Senator Durenberger:

When Governor Bond and I testified before your Subcommittee on Intergovernmental Relations on May 5, 1982, on behalf of the National Governors' Association, you raised some very important questions regarding the Low Income Energy Assistance Program. Unfortunately, time did not permit a full discussion of these issues at that time. As a result, I would appreciate the opportunity to provide this additional information for the hearing record.

First of all, you asked how Governors feel about the Administration's proposal to combine the Energy Assistance Block Grant Program with the AFDC emergency assistance program.

Governors have testified regularly before your subcommittee and other congressional committees on behalf of maximum flexibility in administering programs where Congress provides funds to the states to meet human needs. Governors continue to press for that flexibility and would welcome changes in both the Emergency Assistance Program and in the Low Income Energy Assistance Program designed to provide that flexibility. The Administration has proposed to combine three programs into one, and at the same time, reduce funding by more than 36%. The figures are as follows:

Program	FY 82 Appropriation	FY 83 Proposed
Low Income Energy Assistance	$1.875 billion	$1.3 billion
AFDC Emergency Assistance	61 million	--
DOE Home Weatherization	144 million	--
TOTALS	$2.059 billion	$1.3 billion

These cuts are inappropriate and cannot be accomplished without major program reductions.

The Administration has provided no factual data to indicate that the demand for these three programs has declined in any way or is likely to diminish in the future. To fold them into one program in the name of flexibility while drastically cutting federal support does a disservice to the concept of block grants and federalism, and is unacceptable to states.

Next, you asked about the Administration's proposal to count Energy Assistance payments as income for AFDC and food stamp recipients. We oppose this concept because it creates serious problems for the recipients as well as for the administering state agencies. For persons receiving both AFDC and food stamps, the effect would be simply to negate the benefits of the Energy Assistance Program, causing beneficiaries to lose almost $1 in AFDC/food stamp benefits for every $1 they received in Energy Assistance. While such a manipulation of programs might give the appearance of federal budget savings, nothing really would be accomplished beyond reducing benefits to persons certified to be truly needy and leaving the states with fewer resources to deal with an undiminished caseload. States already have sufficient authority to avoid any potential duplication of benefits.

Finally, you asked about the future of the Energy Assistance Program, stating that some had expected the program to last for only three years and asking whether in establishing Energy Assistance the Congress had, in effect, created another welfare program.

In the extended debate over decontrol of oil prices, it was recognized from the outset that there were certain tradeoffs--that the nation should benefit from allowing energy supplies to seek their true market levels, which would encourage energy conservation, for example. At the same time, it was recognized that persons living on low, fixed incomes would suffer an extraordinary increase in their unavoidable fuel costs--costs which they would simply be unable to pay unless provided some form of assistance.

In effect, the nation struck a bargain with itself, agreeing to accept the painful adjustments resulting from decontrol as long as the needy were given some assistance in meeting extraordinary fuel price increases.

In the 1980 Crude Oil Windfall Profit Tax Act, Congress adopted language stating that 35% of the net proceeds of the tax should be reserved for Low Income Energy Assistance during this decade. Although strictly speaking this language is not binding, it is equally true that appropriations for Energy Assistance have never come close to the 35% goal.

Although there is some tendency today to focus attention on the recent leveling off of certain energy prices, particularly gasoline and fuel oil, it must be remembered that these recent reductions came only after increases which have caused many home fuel bills to double, triple and quadruple.

Furthermore, prices for electricity and other fuels, particularly natural gas, have continued to increase in recent months. Testimony at congressional hearings indicates that typical fuel assistance to a needy family in the recent record-breaking winter was in the range of $500, and that total fuel bills over $1,500 are increasingly common. Equally important, neither the states nor the Federal government have been able to make the extraordinary adjustments that would have been required to assure that SSI and AFDC benefits were sufficient to meet energy needs.

Governors strongly support continuation of the federal assistance provided through the Energy Assistance Block Grant program and are firmly on record that FY 1982 funding levels for block grants should be continued in FY 1983 and thereafter. We are, however, fully prepared to discuss alternative ways in which that assistance might be provided within a broader examination of federalism.

If we may provide additional information on these matters, we would be pleased to do so.

Sincerely,

Richard D. Lamm
Governor

cc: Governor Jay Rockefeller
Senator Gary Hart
Senator William Armstrong
Congresswoman Pat Schroeder
Congressman Tim Wirth
Congressman Ray Kogovsek
Congressman Hank Brown
Congressman Ken Kramer
Steve Farber, Executive Director, NGA
Deirdre Riemer, Staff Director, NGA

Mr. **Bond**. Mr. Chairman, obviously the problem of natural gas and the increasing prices imposed on consumers in Missouri is one of the very real problems that we face. The recent runup of natural gas prices has been a far more significant burden on our State than heating oil costs. We feel very strongly that not only is this a problem for low-income households, but it is also a problem for middle-income households in our State.

Regarding the proposal to count low-income energy assistance or AFDC in food stamps, it is the view of our departmental people that this would hit the poorest the hardest. Those who receive both AFDC and food stamp benefits would get a double whammy if the Low Income Energy Assistance were counted.

Obviously, you have pointed out a real problem: How do we take care of the needs of our people? The energy costs are ongoing costs that have to be paid. We don't have any magic solution as to how you can resolve the issue you have raised, but we can assure you that the problem still exists. With continually increasing natural gas prices in Missouri, it is going to be an even more serious problem.

Senator **Durenberger**. Of course, the problem for those of us who are dealing with the New Federalism is: Can we muddle through this year without any difficulty?

I mean, we will cut a little money. We will bite off the administration's recommendations on AFDC. However, at least on my part, it is a real concern. We have just created another inkind program to take care of another need when, at some point, people might make those decisions better with cash through the AFDC program or something else.

For some period of time, it seems to me, we have been going the wrong way. We are diluting the weatherization decidedly and maintaining the energy payment side of it. I think at some point we need to address that.

I am conscious of your time. I have one last question I would like to ask you both. It deals with what we call the crosscutting requirements. That is, the 60-some laws and regulations that apply to anybody and everybody who takes Federal grants—the Davis-Bacon Act, the Civil Rights Act, the National Environmental Policy Act, architectural heritage, and all the various regulations and OMB circulars. All of these, presumably, have the force and the effect of law. It has been a little difficult for us to determine whether OMB really believes they apply to the block grants.

What is your view as to whether or not they do or ought to apply, given the role that the courts usually have in the process of determining the application of these kinds of crosscutting requirements? Should we just make the decision that all of these requirements are going to continue to apply to the block grants? Or, should we be more definitive in that area as we go into the blocking process?

Mr. **Bond**. I would say that, to the extent that there are basic Federal policies which should be followed—you mentioned a number of areas including nondiscrimination—we would understand a Federal compliance requirement attached to the block grants. On a case-by-case basis, there may be some requirements that are not appropriate to particular block grants. I think the first step in addressing this question is for the Congress to examine the extent of all of these national policies to assure that they are all still warranted. Then, following on that, the Congress should make a decision on a case-by-case basis as to which of the various crosscutting requirements should apply to the block grant programs.

Mr. **Lamm**. I support Governor Bond's response and would point out, in addition, that you have included in your boilerplate bill a provision to prevent any additional restrictions being imposed by administrative regulations. Your proposal is a constructive approach to the problem.

Senator **Durenberger**. The time of 10:50 having arrived, I will express my appreciation to both of you and to the NGA for your contributions.

Mr. **Bond**. Thank you, Mr. Chairman.

[The prepared statements of Governors Bond and Lamm follow:]

National Governors' Association

Richard A. Snelling
Governor of Vermont
Chairman

Stephen B. Farber
Executive Director

Testimony of

The Honorable Christopher S. Bond

Governor of Missouri

before the

Subcommittee on Intergovernmental Relations

Committee on Governmental Affairs

U.S. Senate

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Mr. Chairman, my name is Christopher S. Bond, and I am Governor of Missouri. Thank you for permitting me to appear today on behalf of the National Governors' Association to discuss implementation of block grants. Mr. Chairman, I am particularly pleased to appear before this subcommittee, because of its long standing bipartisan sensitivity to the needs of state and local governments. The nation's Governors are grateful for your commitment to the federal system of government.

As my old friend and fellow Missourian Senator Jack Danforth can attest, I have long been an ardent supporter of block grants and other federal policies that return program planning and administration to the states. Block grants provide states with the only real flexibility in an otherwise restrictive grants-in-aid system.

There is a need to continue the process of relieving states from the constraints of 500 separate categorical programs and their attendant regulations, which impose over 1,000 separate mandates on state and local government and a paperwork burden estimated to have cost $5 billion in 1977.

In Missouri, we spent an estimated $8.4 million in FY 1981 to comply with 1,400 pages of federal rules and regulations for categorical health and social service programs. Health programs alone required 2,202 separate reports. We estimated that one-fifth of state employees' time was spent writing proposals and reports to meet federal reporting and accounting requirements. Under these conditions, it is little wonder that many Americans believed that government was not meeting their needs. Nor was it surprising Governors felt they must be given greater flexibility to develop and administer programs.

The Governors have welcomed the priority the President has given to the issue of federalism and the return of greater responsibility for programs to the states. Certainly the block grant concept is a mechanism that provides a vital link between rigid categorical programs and needed reforms. Block grants are an important vehicle for achieving national objectives while maintaining the flexibility of a federalist system.

Although 1981 provided a good start toward a new federalism, we still have a long way to go. As you know, the nine block grants approved in 1981 represent only a fraction of the total number of federal grants-in-aid to state and local governments. The flexibility originally included in the President's block grant proposal was sharply compromised in the legislative process. In addition, funding for most blocks was substantially reduced. States had little opportunity to plan for either the assumption of new responsibility or these funding reductions.

Nevertheless, I feel the states have made real progress in remedying the problems of the grants-in-aid system.

Mr. Chairman, I would like to share with you some of the improvements we have been able to make in Missouri as a result of the increased flexibility provided under the block grants. But first, with your permission, I want to give you some general information on block grant implementation nationwide.

In view of the attention block grants have attracted, NGA knew that there would be a demand for information on how the blocks were being implemented. Accordingly, in January and early February, the National Governors' Association and the Council of State Planning Agencies sponsored a survey on the status of the block grants. The survey covered the nine block grants enacted in the Omnibus Reconciliation Act of 1981 and was circulated to all Governors, their executive assistants, block grant contacts, intergovernmental relations representatives and budget and planning officers.

The survey was coordinated by the Governor's office in each state and was composed of two parts. Part one was a fourteen-item questionnaire examining options to transfer funds among blocks; the public participation process; and the use of increased flexibility to alleviate state financial and administrative burdens. It also dealt with state matching of federal funds; the role of the Governor's staff; the enactment of state legislation concerning block grant appropriation, allocation, and administration; the use of programmatic and administrative flexibility to improve service delivery; and initiatives to pass flexibility on to local governments. Part two asked states to provide a concise description of a planning, policy or management reform, a program innovation, or problems encountered by states in implementing block grants.

The culmination of this two-part survey is the 1982 Governors' Guide to Block Grant Implementation, a 131 page document published in February and released at the National Governors' Association winter meeting. All fifty states responded to the survey, providing the most complete and up-to-date information available on block grant implementation in the states. A copy of this document is being submitted with this testimony.

The survey provides valuable information on implementation timetables. Despite the very short lead time for implementation of the block grants, most states elected to assume the available block grants at the earliest possible date.

- The Alcohol, Drug Abuse and Mental Health Block Grant has been implemented by forty-seven states. The remaining three states will implement the grant October 1, 1982.
- Forty-six states implemented the Preventive Health Services Block Grant by January 1982. Officials in one state plan to implement the grant July 1, 1982, and two states have plans to take this grant October 1, 1982. One state did not report its intention.
- The Maternal and Child Health Care Block Grant has been accepted by forty-seven states. One state will assume this grant July 1, 1982, and two others indicate their willingness to take over the grant on October 1, 1982.
- All fifty states implemented the Social Services Block Grant and the Home Energy Assistance Block Grant on October 1, 1981, as federal legislation required the assumption of both grants at the beginning of FY 1982.
- Thirty-nine states have chosen to administer the Community Services Block Grant. Eight states will begin administering the grant October 1, 1982. In three states a final decision on this grant had not been made at the time of the survey. States electing not to implement this block grant in FY 1982 indicated that the main reasons behind the decision were unfamiliarity with the operation of the program, which had always been primarily a federal government-to-local agencies program, with little state control; lack of planning time because of late passage of federal legislation; and uncertainties regarding federal funding levels. One state reported that there was opposition from the local agencies to the state assuming administration of the block grant before FY 1983.

- A variety of implementation dates is being used for the Community Development Block Grant:
  - -October 1, 1981 — eight states
  - -December 1, 1981 — one state
  - -January 1, 1982 — one state
  - - April 1, 1982 — two states
  - -May 1, 1982 —one state
  - -June 1, 1982 — one state
  - -July 1, 1982 — two states
  - -August 1, 1982 — one state
  - -October 1, 1982 — six states

  Twenty-six states at the time of the survey were undecided, and one state had accepted a planning grant but did not list an implementation date. Most states which delayed acceptance of the Community Development Block Grant stated they were hampered by delays in the publication of regulations by the Department of Housing and Urban Development. States also cited insufficient planning time—particularly for local input—and state legislatures were not in session to authorize acceptance of the program.

- The Elementary and Secondary Education Block Grant was forward funded for July 1982 distribution. Twenty-nine states will begin administering this grant on July 1, 1982 while sixteen others will implement it October 1, 1982. One state will begin implementation September 1, and four states were undecided about this grant at the time of the survey.

- As you know, the Primary Care block grant does not go into effect until FY 1983. According to the National Governors' Association survey, some states have serious reservations about assuming this grant because they are not satisfied that federal dollars received by the state under the block would offset the administrative burden incurred in operating the program.

In addition to information on the timing of implementation, the NGA survey revealed the following preliminary trends:

First: In most states the degree of public participation in the administration of the blocked programs significantly increased, even though there was short lead time to upgrade the process. Previously, most programs were administered with a minimum of involvement from the public, the legislature, and local policymakers. A variety of techniques is being used to increase participation: there has been a marked increase in legislative involvement, more meetings with citizens, and more attempts to interact with local units of government. Creative approaches used included statewide teleconferencing, televised meetings, task forces, special constituency groups, and the provision of speakers for groups requesting information.

In most states, the executive agency administering the particular block grant took primary responsibility for coordinating public participation. The Office of the Governor, followed closely by the state legislature, were the next units of government most frequently responsible.for this activity.

Second: Governors are taking advantage of the increased administrative authority provided under the block grants to coordinate the use of federal and state dollars. As part of this effort, Governors' offices and state legislatures are working to develop new resource allocation guidelines.

Third: Most state legislatures have tried to anticipate the procedures that would be necessary to carry out the responsibilities of block grant implementation. In some states, block grants must be included in the legislative appropriations process. In other states, agency and block grant program funding must be in the same proportion as that for categorical grants from the previous year.

Fourth: As you know, a major benefit of the block grant concept is the opportunity for administrative simplification. Most states indicate that there will be efforts to streamline procedures and to reduce red tape. In Missouri, we expect to achieve significant savings through administrative simplifications which I will describe in greater detail later in my testimony.

However, at the time of the NGA survey early last winter, many states were unsure whether the present block grants would lead to simplification or complication. Some states actually indicated a fear of increased administrative burdens, resulting from changes in contracting and legislative appropriations rules. More than half the states indicated there would be no effect from liberalized audit requirements, and six states anticipated an increase in state audit responsibilities.

Fifth: The Omnibus Reconciliation Act provided limited power to transfer funds from one program to another to meet state priorities. The most frequent transfer to date is from the Low Income Energy Assistance program into the Social Services block grant. We feel the transfer reflects the fact that funding for the Social Services block grant was reduced on a national basis by 19.8%, while the Low Income Energy Assistance block grant, after the most recent supplemental, received a slight increase in funding. Many states, including Missouri, chose to transfer monies from the Energy Block Grant to other high priority programs in order to distribute funding cuts more evenly among critical energy assistance and social service programs.

As block grant implementation progresses, NGA will continue to monitor activities in each state. We will report to you with any additional information.

With your permission, Mr. Chairman, I would like to turn to Missouri's experience in implementing the block grants.

First, I would like to take a few moments to describe the mechanics of our block grant planning process. Anticipating the passage of block grants, in March of last year we began developing a comprehensive decisionmaking process that enabled Missouri to assume responsibility for all available block grants on October 1, 1981. To coordinate the delivery of services under the individual block grants, I appointed a task force that brought together heads of departments with jurisdiction over block programs, my Director of Budget and Planning, and my Chief Executive Assistant. The task force developed a consistent process for developing program adjustments for all of the block grants. The process began with a series of public hearings across the State conducted by the department responsible for the programs in each block. These hearings were followed by careful review by an advisory committee made up of service providers and client representatives. Following advisory committee input, tentative program funding decisions were announced.

Members of my immediate staff and department directors next worked closely with the General Assembly in developing overall policy for administering the block grants and distributing funding reductions. Where necessary, the General Assembly modified FY 1982 appropriations to provide the flexibility necessary to implement the block grants. For example, the General Assembly removed language tying spending authority to particular federal categorical programs, and estimated appropriations to accommodate ultimate block grant funding levels.

In appropriating block grant funds for FY 1983, the Missouri General Assembly institutionalized its involvement by creating oversight committees—consisting of five representatives and five Senators—to oversee each block grant area. These committees will be fully informed of all aspects of the programs funded by each grant. The grants themselves, however, were appropriated in one lump sum, providing broad administrative discretion to ensure maximum efficiency and responsiveness in service delivery.

I am especially pleased with the efforts we have made to involve community groups in our decisionmaking process. I am well aware of the frequently voiced fear that community interests would not be adequately consulted in block grant funding decisions because of relaxed program planning and public hearing requirements. Let me assure you that this criticism can not be made about Missouri. Each department with jurisdiction over block grants established special communication channels with state and local elected officials, service providers, recipient advocacy groups and the general public.

Activities undertaken in preparation for assumption of the Community Development Block Grant are illustrative of our consultation process.

As Chairman of the NGA Committee on Community and Economic Development, I was particularly concerned with burying once-and-for-all the myth that state governments are insensitive to the economic development needs of their local jurisdictions. Even prior to the passage of the Omnibus Reconciliation Act, my administration undertook preliminary conversations with local officials to discuss state assumption of the program. Following passage of the statute, I designated the Missouri Division on Community and Economic Development (CED) as the lead agency for administering the block grant and I appointed a twenty member advisory committee composed of elected county and city officials, as well as professional staffers from local governments. The committee, which has held four meetings, has offered valuable assistance in developing our program.

To ensure that all local governments were consulted, we also sent a twenty page questionnaire to each presiding county judge (county executive) and mayor in the state, asking them to advise us on a wide variety of questions including: types of projects that should be emphasized; types of targeting criteria which should be utilized; kinds of limitations which should be placed on grants, such as grant ceilings, grant minimums and multi-year commitments; and type of technical assistance that would be most beneficial to local officials. Finally, early this year we convened four regional meetings with local government officals and other interested parties to ask their advise on how the program should be designed.

I would now like to disucss the specific initiatives Missouri has taken under each block grant.

Community Development Block Grant

This year Missouri expects to receive approximately $26 million in CDBG funds to distribute to its small cities and counties. Of this amount, about 2% or $6,000 is allowed for administration. Another $9 million will come off the top to honor multi-year commitments already made by HUD. This leaves approximately $17 million to distribute to new applicants. With nearly 1,000 eligible units of government, we did not deem it wise or in the best interests of the State to distribute the funds to each unit of government on a formula basis. Thus, we devised a competitive grant program.

The Missouri program is designed to fund four categories of activities: 1) economic development, 2) housing rehabilitation, 3) public facilities, and 4) emergencies that threaten health and welfare. Competition for housing and public facilities will occur annually. Competition for economic development and emergencies will take place quarterly. Of the $17 million left to distribute to new applicants, five percent will be set aside for emergencies and thirty-five percent will go for economic development. The remaining sixty percent will be split between housing and public facilities based upon the percentage of dollars requested in each category.

An applicant may apply for a maximum of $500,000 in housing or public facilities grants and up to $750,000 for economic development grants. No limitation is set for emergencies since a case-by-case determination must be made.

We anticipate being able to receive applications for housing and community facilities funds from June 1 to July 17 of this year. For the first quarterly economic development and emergency categories, we will accept applications between July 1 to August 15. We have already mailed nearly 2,000 packets to officials of eligible governments which included details of the Missouri program. We have attempted to greatly simplify the applications in order to reduce the advantages of "grantmanship" and make it easier for small cities and counties to compete.

The criteria for judging applications will balance need and opportunity for economic development. There is no bias for one part of the state over another, or for the size of any competing local government entity. In addition, we are putting together a comprehensive technical assistance program to help local officials participate in the block grant.

I think it is important to note that we are able to do all this in a manner which is more efficient and less costly than HUD. For example, we are administering the small cities program with only twelve full time employees whereas HUD required 31 persons working in two regional offices to run its program for non-entitlement areas.

Social Services Block Grant

Funding for the programs included in the Social Services block grant (SSBG) was cut 20% nationwide. In Missouri, funding was actually cut by 22% due to a loss in population. As a result, our funding was reduced by over $13 million, from $65 million in FY 1981 to $51.8 million in FY 1982. Fortunately, through a combination of administrative cuts, service delivery modifications and alternative funding sources, Missouri was able to minimize client service reductions.

As you know, the SSBG eliminated certain costly and time-consuming planning and reporting requirements. Missouri was therefore able to make major reductions in staff, equipment and other administrative expenses. The state achieved additional savings by consolidating and simplifying reporting requirements for Title XX social service programs with child abuse and neglect programs and foster care and adoption assistance services under Title IV-B and E of the Social Security Act. As a result, we were able to cut the cost of administering programs in this block grant by roughly one-half.

Once we had achieved all possible administrative savings, we turned our attention to improvements in the existing day care reimbursement system. Federal Inter-Agency Day Care Requirements and rates based on estimates of center costs had produced state subsidized day care charges that exceeded day care rates in the private market. By moving to a standard negotiated rate ($8 per day for children and $12 per day for infants), we were able to reduce costs by $1.3 million without curtailing the amount of day care time provided.

The third way we absorbed funding reductions was by encouraging day care centers to negotiate copayment arrangements with their clients. Prior to the enactment of the SSBG, federal regulations had effectively, discouraged copayment for day care by reducing federal reimbursement to states in the amount of the copayment.

Finally, SSBG funding reductions were further offset by transferring into the block $4 million of Low Income Energy Assistance funds.

Through these measures, Missouri successfully held overall reductions in client services to approximately 13%. Unavoidable service reductions were targeted away from life-sustaining services, such as protective services for children.

In addition to the above program modifications, my administration aggressively lobbied for increased state dollars to minimize the effect of federal reductions on children's programs. Last week, the Missouri General Assembly approved partial funding for significant new initiatives in children's programs providing for preventive health programs and services for abused and neglected children that will allow them to remain in their home environment. The combined effect of the children's budget initiative and changes in funding priorities has resulted in a social service program in Missouri which successfully targets available funds to the most critical social service needs.

Low Income Energy Assistance Block Grant

In contrast to deep funding reductions in the Social Services Block Grant, FY 1982 funding under the Low Income Energy Assistance Block Grant (LIEA) underwent a slight increase. Our efforts in implementing this block grant were concentrated in three areas: comprehensive overhaul of our service delivery system; changes in our benefit schedule; and use of funds for weatherization activity.

Prior to this fiscal year, utilities participating in Missouri's LIEA were reimbursed for expenses after heat was supplied. Providers had to submit bills each month. Payment to utilities was routinely delayed anywhere from 30 to 90 days. Largely as a result of these factors, approximately 1,000 providers dropped out of Missouri's program during the FY 1981 winter season. In order to attract providers back into the program, we needed to develop a new service delivery system that guaranteed timely reimbursement and provided minimal paperwork.

As a result of the Department of Health and Human Services' commitment to allowing maximum administrative flexibility under all block grants, we were able to implement a new energy assistance system that addressed both needs. Under our new system, the Missouri Department of Social Services determines each eligible applicant's maximum benefit for the entire winter heating system and advances that amount to the utility contracting to provide heat for that individual. At the end of the year, the utility returns any unused funds to the state. Seventy-five to eighty percent of our utility providers have rejoined our program in response to this service delivery modification.

We further improved the cost-effectiveness of Missouri's LIEA by modifying a benefit formula that inadvertently discouraged energy conservation. Under last year's plan, Missouri paid a percentage (based on income) of each eligible person's heating bill, up to a maximum of 50% of the total bill. By comparison, under this year's formula, maximum benefit levels are based solely on income. Unlike last year's calculation, the new formula encourages fuel efficiency because the benefit amount does not rise with increases in fuel useage. Although the maximum benefit is lower under the new formula, the average monthly grant amount available to LIEA recipients has increased by 36%, and more recipients have received assistance than in FY 1981.

Missouri originally did not plan to exercise the option to use LIEA funds for weatherization activities. However, the unexpected appropriation of supplemental funding has made it possible for us to dedicate $5 million of LIEA funds for this purpose. Weatherization projects will be carried out by our Department of Natural Resources, and will emphasize services for the elderly and handicapped. We estimate that 3,700 homes will be weatherized as a result of the flexibility allowed under the block grant.

As I mentioned earlier, Missouri exercised the transferability option provided under the Low-Income Energy Block Grant to transfer $4 million into the Social Services Block Grant. With your permission, Mr. Chairman, I would like to make a few brief remarks concerning recent attempts by some members of Congress to use state exercise of this transferability option as an excuse for reducing LIEA funding in FY 1983. The transferability of funds between block grants is essential to the successful implementation of the block grant concept. Transferability is the best solution to one of the major problems of the grants-in-aid system--the inefficient distribution of federal funds among categorical programs--because it gives states the opportunity to use federal funds in the most cost-efficient way possible.

The factors surrounding Missouri's decision to use LIEA funds for certain social service programs provide a sound example of the importance of this mechanism to the successful delivery of essential state services. As I have discussed previously, funding for Missouri's social service programs was cut by 22%. Although every effort was made to absorb this cut through administrative reductions and modifications in service delivery systems, it soon became apparent that the state would have to increase appropriations to offset funding reductions in vital children's protective services. Although my Administration worked quickly to enact a children's budget initiative, these vital services would have been stopped for many months if we had not been able to transfer funds from the LIEA. Because of the transferability option, we were able to distribute funds among competing programs in the fairest and most effective manner.

Alcohol, Drug Abuse and Mental Health Block Grant

Missouri has also been able to use block grant flexibility to make significant improvements in the delivery of health services. In particular, the Alcohol, Drug Abuse and Mental Health Block Grant (ADA/MH) reduced federal regulation to such an extent that we have been able to make great strides in improving the effectiveness and efficiency of our mental health programs.

Prior to the enactment of the ADA/MH Block Grant, state mental health planners were faced with an uncoordinated network of mental health services. One system of care is comprised of state-operated mental health facilities--five hospitals and three mental health centers. These facilities are primarily state-funded. However, because they also receive some federal funding, the facilities are subject to both federal and state laws and regulations. A second "purchase of service" system of mental health care is delivered by twenty-one privately operated community mental health centers also receiving both state and federal funds and subject to both Missouri and federal laws and regulations.

Frankly, it is difficult to imagine a service delivery system any less efficient. We were unable to effectively implement statewide funding priorities because we had no authority over the use of federal monies. As a result, a significant amount of federal money was being spent for the treatment of short-term episodic mental illness rather than chronic illness, which is responsible for the major part of repeat, long-term mental health care expenditures in the state.

In addition, poorly defined federal service delivery areas--based solely on population--did not adequately reflect factors having a significant effect on availability of health care. Basic mental health services were not readily available in some parts of the state, while wasteful duplication of services existed in other areas. Finally, both state and privately operated facilities were spending significant amounts of money in complying with separate state and federal mandatory service requirements, as well as an unbelievably complicated array of accounting and reporting procedures.

With reduced federal service mandates and increased administrative authority provided the state under the ADA/MH Block Grant, we have been able to make significant inroads into this administrative nightmare. We are now able to target federal resources to chronic illnesses and other mental health problems which we know are most critical in our state. Mental health centers have been able to significantly reduce administrative overhead because they are no longer forced to comply with two separate sets of regulations. Aggressive enforcement of service delivery contracts between facilities serving the same area has eliminated wasteful duplication. Finally, as a result of new service area boundaries, federally-funded mental health services will now be available in previously underserved areas of the state.

As a result of these changes, we were able to minimize the effect of federal budget reductions. FY 1982 funding to Missouri for the programs within the block was cut by approximately 35%. In spite of this major funding cut, ten of the twenty-one purchase of service areas in Missouri will experience funding increases--some as high as 40% and 23%. Three areas will receive constant funding. Funding decreases in the eight remaining areas will range from 3.9% to 19.7%.

Maternal and Child Health Block Grant

Implementation of the Maternal and Child Health Block Grant also required a reexamination of spending priorities.

Our first step in implementing this block grant was to significantly reduce funding for sub-state specialty projects established under the old categorical programs on a pilot project basis. Funding for the majority of these projects was reduced as much as 50%. While many of these programs were meritorious, the limited scope of the projects convinced us to accept recommendations from community groups to reduce funding.

Reductions in spending for these projects freed-up approximately $800,000 which we passed through to counties in the form of block grants. Service mandates were limited to a set minimum amount of basic public health services for children, such as well-baby care and health screening. In this way, we were able to pass administrative flexibility on to local governments which we felt were better able to make effective decisions concerning the delivery of public health services. In addition, as a result of our county block grant initiative, eight counties in Missouri which do not have public health offices are now receiving a minimum amount of child health services. In FY 1983, we plan to use state funds provided under my children's budget initiative to increase the amount of block grant funds available to counties.

Conclusion

In closing, I believe that Missouri's block grant implementation record illustrates that the states are fully competent to assume greater responsibility for identifying and serving needs of their citizens. During the past year we have made every effort to use the flexibility provided under the block grants to set intelligent funding priorities, target funds to previously underserved substate regions, eliminate wasteful duplication of services, and abolish unnecessary reporting and administrative requirements. By concentrating on staff reductions, other administrative savings and more efficient delivery systems, Missouri has been able to minimize the effect of funding reductions on services. Where service cutbacks could not be avoided, community groups were closely involved in setting funding priorities. In addition to developing more efficient and effective ways to use federal funds, Missouri has increased state funding for social services and public health services, which we feel are primarily state responsibilities.

As you consider federal budget proposals for FY 1983, we hope that the activities of the states during the past year will encourage you to support further increases in administrative flexibility.

National Governors' Association

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Testimony of

The Honorable Richard D. Lamm

Governor of Colorado

before the

Subcommittee on Intergovernmental Relations

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Mr. Chairman, my name is Richard D. Lamm. I am Governor of Colorado and a member of the National Governors' Association Executive Committee. I am pleased to have this opportunity to present the views of the National Governors' Association and the experience of my state on the subject of block grants. This is an area of great concern to me and to all Governors, and I wish to thank the subcommittee for the work you have done to improve the relations between states and the federal government to the benefit of both program recipients and the taxpayer.

In the interest of time and efficiency, Governor Bond and I have accomplished our own "sorting out" exercise for this hearing. Governor Bond, in addition to his discussion of the operation of block grants in his state, has focused on NGA's recent block grant implementation survey. I will focus upon the problems states have encountered with the block grants. The problem areas I will cover in my testimony today are budget reductions, program design, uncertainty in funding levels, and issues relating to the transfer provisions.

Last year, the President proposed consolidating 85 categorical programs into six block grants. Congress approved the merging of 57 programs into nine block grants. The President also proposed more sweeping state flexibility in the programs than Congress allowed. While the Administration is to be applauded in its efforts to rationalize and make manageable the some 500 separate categorical programs and their attendant regulations, the changes passed in 1981 make only a small dent in the much larger problem. Even with the proposed eight new block grants and three expanded initiatives, just 25% of grants-in-aid would be provided through more flexible block grants in FY 1983, up only slightly from 21% the previous year. In other words, aid provided to state and local governments is still largely in the form of categorical aid, which is often too restrictive to adequately meet state needs.

Block grants are an important mechanism for reconciling the principles of federalism with the realities of national concerns and local diversity. The Governors believed so firmly in the block grant concept that we offered last year to exchange a 10% cut in the consolidated programs for enactment of the block grants. We offered this incentive in the belief that increased flexibility would provide an opportunity for administrative savings and retargeting worth a 10% funding reduction. Instead, Congress enacted much larger cuts, as we all know, along with more limited flexibility.

Problems in Block Grant Implementation

This brings me to the first problem I wish to outline respecting the implementation of the block grants: the magnitude of the budget cuts they represent.

1. Budget Reductions

It would be a terrible shame and would create damage difficult to repair if the block grant concept becomes known as merely a tool for reducing vital services. To quote one human services administrator, "block grants mean more authority to do less". Its an illustration of the impact of budget cuts on block grants, I have attached to my testimony a table showing the dollar reductions associated with the block grants enacted in 1981 and another table that illustrates the President's FY 1983 recommendations.

As can be seen by these tables, President Reagan's block grant proposals for FY 1983 expand upon the use of block grants as a budget cutting tool. In FY 1982, total funding for the newly enacted block grants was reduced by 13%, a total cut of almost $1.5 billion. These cuts included a 19.8% reduction in the social services block grant, a 24% cut in the maternal and child health program, a loss of 26.4% in the community services block, and a 21.3% cut in the alcohol, drug abuse and mental health programs (ADAMHA).

These cuts have had a substantial impact upon persons who rely on the programs for vital services.

The FY 1983 budget proposed new cuts for block grants. These reductions are difficult to track, because it can be confusing to compare reconfigured programs from one year to the next. For example, it appeared that the Administration was actually budgeting more money for the women, infants and children supplemental feeding program (WIC) for FY 1983 than in FY 1982 because of the program changes involved: WIC was being combined with the maternal and child health block grant. The WIC program was funded at $950 million in FY 1983 and the FY 1983 proposed funding for the block grant was $1 billion. In fact, however, in order for WIC services to be provided at FY 1982 levels, the maternal and child health block grant activities would have to be eliminated under the combined block. The combined programs were actually slated for a cut of almost 22%.

Under the Administration's FY 1983 proposed block grants, the constituent programs proposed for consolidations would be reduced overall by 16.2% from FY 1982 to FY 1983. These same programs suffered reductions of over 21.6% from FY 1981 to FY 1982. The net reduction under the President's proposal would be over 34% from FY 1981 to FY 1983.

These reductions reflect cuts in vital programs such as child welfare services that from FY 1982 to FY 1983 would be reduced by 18.3%. They represent reductions of 32.6% in rehabilitation service programs that provide hope for the disabled to achieve self-sufficiency. The most drastic cut would be in the community services block grant program, which would be reduced by 71.3%.

Is it any wonder that more and more persons have come to view block grants with concern? While the Governors have repeatedly supported consolidation to improve efficiency, responsiveness to the people, and effectiveness in the delivery of services, we have not proposed the use of block grants for substantial budget cutting. In fact, we believe that the FY 1983 reductions proposed by the President--for the block grants and other programs--would weaken the capacity of state and local governments to assume greater responsibilities in the federal system.

2. Fundamental Program Redesign

In addition to the use of block grants as a budget cutting device, block grants have been used as a means to propose fundamental alterations in the character of program funding by converting programs from open-ended entitlement status to "capped" (or close-ended appropriation) programs. For example, the FY 1983 proposal to combine, cap, and cut state welfare administrative costs in the food stamp, AFDC, and Medicaid programs under a "combined welfare administration block grant" radically restructures important programmatic and policy concepts that are essential to the administration of these programs. Open-ended funding exists for a very good reason in these programs. It is difficult to estimate the costs involved and the levels of service to be provided because they rise and fall according to need, not pre-determined levels of funding.

3. Uncertainty in Block Grant Funding

Congress has funded the majority of the block grant programs this year under three continuing resolutions.

What you may not fully appreciate is the damage this uncertainty causes to the effective administration at the state level of the block grant programs. One of the primary advantages of block grants is the flexibility it affords Governors to plan a more rational system of service delivery for citizens of their states. However, this planning process is devalued when the funding levels of the programs remain clouded through two-thirds of the budget year.

In addition to the legislative situation, there have been administrative uncertainties regarding the release of monies and the granting of awards. A prime example of this extra-legislative fiscal uncertainty affected the community services block grant. At the time of the first continuing resolution, the Office of Management and Budget apportioned the monies not on the basis of the congressionally adopted level of $362 million, but rather on the basis of the Administration's proposed funding level of $225 million. Similar problems occurred with each of the subsequent continuing resolutions. The House of Representatives raised questions of impoundment violations. In the states, vital administrative decisions as well as delivery of crucial services were impaired by the "on again, off again" funding confusion that occurred at each round of the budget process for FY 1982. At the present time, community services grants to states are not guaranteed after the third quarter in spite of the fact that the continuing resolution provides for an appropriation for the remainder of the year.

In a nutshell, if states do not know how much they are going to receive for a block grant program, and when they will receive it, how can they plan? How can they use the intended flexibility? How can they efficiently administer programs?

4. Transfer Provisions

During the many years that block grants have been under discussion, a central issue has been whether states should have increased authority to redirect federal grants to meet needs and priorities identified in the individual states.

An initial step toward limited statutory flexibility was realized in the approval of block grants in 1981. Most of the block grants allow for the transfer of a small fraction (about 15%) of the total and only, as a rule, to certain identified programs. When Governor Busbee testified before you last year, he provided an illustration of how minimal the flexibility provided by the transfer provision really is. He pointed out that the transfer allowed him to reprogram just $91,000 out of the $3 million in block grant funds available to his state.

In spite of the limited flexibility they offer, the transfers are clearly filling a need in the states and are being used. It would be a mistake for Congress to act against the transferability provision of the block grants, as Members did in the low income energy block grant supplemental by exempting the $123 million provided from the transfer clause. The action signals a lack of support for the flexibility which Governors believe to be the chief advantage of block grants. Given overall reductions in block grants of 13%, the transfer provision allows priority setting and should be preserved.

Block Grant Successes

Mr. Chairman, in providing you with this list of problem areas, I do not mean to imply that the experience has been all bad, although indeed the funding decisions have created serious service problems. I believe the response of the states in accepting the block grants, indicates the success of the concept.

In addition, I think the work of the Administration in developing regulations that are as simple and clear as possible is another major implementation success. The regulations represent a strong effort to maintain the integrity of the block grants.

Another positive factor affecting block grant implementation is the development, under your leadership, Mr. Chairman, of boilerplate language for block grants. This is a very important project and of critical concern to states. A structure of this kind would be very helpful in giving guidance to future congressional actions on block grant legislation. Such a structure will also go far in rationalizing and coordinating block grant program requirements that will help recipients administer programs more effectively.

I find much to commend and very little to criticize in the Durenberger bill. It is carefully crafted to provide greater flexibility to states while assuring that standards of public participation, fiscal and program integrity, and minimal federal agency interference are maintained. We are particularly pleased to see that strict limits were placed on the authority of federal agencies to devise administrative restrictions on grant recipients in your bill. It is imperative that the block grant concept be free from unnecessary red tape and needless problems over minor issues.

The National Governors' Association recently transmitted the boilerplate language to state officials who are working on block grants to ask them to evaluate it based on their current experience. We will be submitting comments to you as soon as we have collected them.

Block Grant Implementation In Colorado

Before ending my statement, I would like to provide you with some highlights of my own state's experience in block grant implementation.

Colorado began planning more than six months in advance for the implementation of the block grants. Public hearings were held throughout the state, and the involvement of interested citizens was solicited. These efforts led us to take creative cost containment actions, refinancing initiatives, and reprogramming changes that helped to mitigate the effects of the budget cuts. However, we have exhausted most of these innovative possibilities and will have to pass future cuts through to recipients in the form of service reductions if Congress were to adopt the President's proposed domestic cuts for FY 1983.

I am pleased to report to the Committee that the General Accounting Office (GAO) has recently completed a thorough review of Colorado's transition to the block grants. The GAO team took an in-depth look at our efforts thus far and gave us a favorable review. The report stated, "Colorado's transition to block grants has been relatively smooth despite its assuming some additional administrative and programmatic responsibilities while also absorbing Federal funding reductions in many former categorical programs."

Conclusion

Let me conclude by reiterating the most important point I can make today--Congress should impose a two-year moratorium on further domestic cuts. As you know, states and localities took a disproportionate share of the FY 1982 cuts, and we no longer have the capacity to absorb additional federal budget reductions.

We all recognize the urgent need to reduce the prospective federal deficits in the near future (estimated at $180 billion, $220 billion and $240 billion before additional cuts in FY 1983, FY 1984 and FY 1985, respectively). It is these large deficits that are keeping interest rates so high and damaging our economy so severely.

Thank you for the opportunity to testify this morning on these important block grant initiatives. We look forward to cooperating with you to make the concept work. I will be pleased to respond to any questions you might have.

FY 1982 BLOCK GRANT FUNDING

PROGRAM	FY 1981	FY 1982	% CHANGE 81 TO 82	$ CHANGE 81 TO 82
SOCIAL SERVICES B. G.	2901.10	2400.00	-17.27	-501.10
EDUCATION B.G.	525.40	470.50	-12.12	-54.90
MATERNAL & CHILD HEALTH B.G.	457.50	347.50	-24.04	-110.00
COMMUNITY SERVICES B.G.	472.70	348.00	-26.38	-124.70
PREVENTIVE HEALTH B.G.	99.20	81.60	-17.74	-17.60
ADAMHA B.G.	548.60	432.00	-21.25	-116.60
LOW INCOME ENERGY ASS'T *	1850.00	1875.00	1.35	25.00
CDBG (INCLUDING UDAG)	4370.00	3895.70	-10.85	-474.30
TOTAL	11324.50	9850.30	-13.02	-1474.20

* LOW INCOME ENERGY ASSISTANCE INCLUDES $123 MILLION ADDED IN AN EMERGENCY SUPPLEMENTAL.

PRESIDENT'S FY 1983 BLOCK GRANT PROPOSALS

PROGRAM	FY 1982	FY 1983	% CHANGE 82 TO 83	$ CHANGE 82 TO 83
SOCIAL SERVICES	2400.00	1974.10	-17.75	-425.90
ADAMHA	432.10	432.00	-.02	-.10
PREVENTIVE HEALTH	81.60	81.60	.00	.00
COMMUNITY SERIVICES	348.00	100.00	-71.26	-248.00
COMMUNITY DEVELPMENT	3456.00	3456.00	.00	.00
EDUCATION	470.70	433.00	-8.01	-37.70
LOW INCOME ENERGY *	1930.20	1300.00	-32.65	-630.20
PRIMARY CARE	414.80	416.80	.48	2.00
SERVICES FOR WIC	1281.60	1000.00	-21.97	-281.60
CHILD WELFARE	465.10	380.10	-18.28	-85.00
COMBINE WELFARE ADMN.	2296.00	2181.00	-5.01	-115.00
VOC AND ADULT ED.	732.50	500.00	-31.74	-232.50
HANDICAPPED ED.	1042.10	846.00	-18.82	-196.10
TRAINING AND EMPLOYMENT	2252.00	1800.00	-20.07	-452.00
REHAB. SERVICES	925.00	623.50	-32.59	-301.50
TOTAL	18527.70	15524.10	-16.21	-3003.60

* LOW INCOME ENERGY RECEIVED AN ADDITIONAL $123 MILLION IN AN EMERGENCY SUPPLEMENTAL

Senator **Durenberger**. We will adjourn the hearing until next week.

[Whereupon, at 10:50 a.m., the subcommittee recessed, to reconvene at the call of the Chair.]

BLOCK GRANT IMPLEMENTATION

TUESDAY, MAY 11, 1982

U.S. SENATE,
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The subcommittee met at 9:50 a.m. in room 357, Russell Senate Office Building, Hon. Dave Durenberger (chairman of the subcommittee) presiding.

Present: Senator Durenberger.

OPENING STATEMENT OF SENATOR DURENBERGER

Senator DURENBERGER. The hearing will come to order.

We will hear testimony on block grant implementation and on the issues that have been raised during the first 6 months of implementation. We have a lot of witnesses today, and their statements are long. I tried to read them all last night. However, it took more time than has been allocated for this hearing, so I didn't quite make it through.

To make sure that all the witnesses have an opportunity to give their statements, my questions will be brief.

I will just put my opening statement in the record without reading it. I will also include a statement from Senator Jim Sasser, who is the ranking minority member of this subcommittee.

[The statements of Senator Durenberger and Senator Sasser follow:]

PREPARED STATEMENT OF SENATOR DURENBERGER

This is our second oversight hearing on the implementation of the 1981 block grants. This morning, we will hear from representatives of Federal, state and local governments, as well as witnesses from human resources groups.

Before we begin, I have to say that the testimony on the new block grants so far has been gratifying. Last week, we heard testimony from two governors: Richard Lamm of Colorado, a Democrat; and Kit Bond of Missouri, a Republican.

Both men had basically the same message: That Congress *did* take too long to act on block grants last year, but even so, the programs generally are successful. The governors also said they appreciate the increased flexibility the states get from block grants, and they urged the formation of more block grant programs for Fiscal Year 1983.

This means a lot to those of us who believe in the concept of New Federalism, of giving more of these responsibilities to the states. Most of the programs are being successfully picked up by the states. And the majority of state governments have chosen to administer the grants themselves, rather than letting the Federal agencies handle them.

Last year, almost half of the state legislatures passed laws increasing their involvement in the oversight of Federal funds. And that's a lot of funding to deal with. Federal aid makes up about 25 percent of combined state and local budgets.

As for the recipients of those grants, 30 states have reported little or no change in eligible recipient groups since the formation of the new block grants. Public participation in the programs seems to be on the rise, and most states are encouraging local governments to get involved through advisory boards and public hearings.

This is not to say there aren't problems. For instance, the consequences of budget cuts. There are also some administrative issues that need to be resolved, and I have some proposals for resolving them.

But that's why these hearings are being held. To hear both the positives and the negatives. To find out just how the states are allocating the block grant funds, and how this is affecting the recipients. To talk about the proposals for better managing the new system, and to discuss the relationship of the block grants to the New Federalism.

That phrase, "New Federalism," has a rather partisan ring to it. And yet, the creation of block grants as part of that concept is a genuinely bipartisan issue. We saw that in last week's testimony from the two governors. I think that's partly because we are reminding ourselves that grant programs are not created to give politicians something to argue about.

The man who needs to weatherize his house, and the single mother on welfare, and the person who needs treatment for alcoholism—those people don't care whether or not we call it "New Federalism." They don't care whether it's the Democrats or the Republicans backing their grants. They just want help from a program that's run wisely, efficiently and effectively. We're trying to work out a system that will achieve that. And that is why we're here today.

OPENING STATEMENT OF SENATOR SASSER

Mr. Chairman, I am pleased to welcome Delores Delahanty, the executive director of the Human Services Coordination Alliance for the State of Kentucky, to testify before the subcommittee.

Her prepared testimony on block grant implementation adds the important human dimension to the reports the subcommittee has received on this subject. Block grants have been recommended by experts on management as one means of constructing more efficient and effective service delivery systems for government programs. Efficiency and effectiveness are certainly very important considerations. But we must not lose sight of the real goal which is better delivery of services—to people.

Ms. Delahanty reminds us of that in her prepared remarks. I commend her testimony to my Senate colleagues for review as we deliberate on various proposals to change the intergovernmental fiscal system. The National Association of Social Workers, which Ms. Delahanty represents here today, has always been helpful to me in the past when I relied upon them for advice about issues before the Congress. So, I certainly intend to take their views into account at this crucial time in our budget-making history.

Mr. Chairman, thank you for holding this important hearing to assess how far we have come and where we are heading in block grant implementation. Your work in generic language to make requirements applicable to block grant uniform is to be complimented.

Thank you very much.

Senator DURENBERGER. I ask the cooperation of all the witnesses in keeping the hearing on the tight time schedule that we have set. We have allotted 7 minutes for each witness. I ask that you not read your statements in full.

With that, I will go to our first witness, who is Dr. Robert Rubin, Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services.

Dr. Rubin, thank you for coming.

TESTIMONY OF ROBERT J. RUBIN, M.D., ASSISTANT SECRETARY FOR PLANNING AND EVALUATION, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Dr. RUBIN. Thank you, Senator.

I am here to discuss the implication of the health and human services block grants. As you know, I have been involved closely with both the design and the implementation of these blocks, having been charged by Secretary Schweiker to prepare the legislation that was sent to the Congress and to coordinate the implementation after enactment of that legislation.

The Department of Health and Human Services administers the seven health and human services block grants which are consolidated into 32 categorical programs. Upon enactment of the Reconciliation Act on August 13, we moved rapidly to implement these blocks, working closely with the States.

As you know, we issued interim final regulations for all the blocks on October 1. Most States began operation of the blocks soon thereafter. From our vantage point, the implementation has proceeded rapidly and smoothly without any major problems other than delays in funding, which was caused principally by the lack of fiscal year 1982 appropriations.

To refresh your memory, we have summarized the seven HHS block grants on charts.[1] They also are appended to my formal statement. We will briefly go over them.

As you know, there is the preventative health and health services block; the alcohol, drug abuse and mental health block; the maternal and child health block; and the primary care block, which is not to begin functioning as a block until October 1, 1982. To go on to the second chart, the social services block grant; the community services block grant and the Low Income Energy Assistance block grant complete the list of block grants administered by our Department.

The statutes of four of the block grants give States the option to assume the operation of the blocks in fiscal year 1982 or to have our Department continue the administration of the categorical programs which are consolidated into the blocks.

The third chart shows the number of States and tribes participating in each block. Currently, 49 States have chosen to operate the alcohol, drug abuse and mental health block; 48 States operate the remaining two health blocks; 40 have opted to assume the community services block; all States are participating in both the energy and the social services block grants.

As you know, we are also making direct grants to Indian tribes as required in the statutes of four of the blocks.

The administration of the blocks at the Federal level is primarily the responsibility of the operating divisions of our Department. However, the Secretary has charged my office with coordinating implementation and insuring consistency across the various HHS agencies.

The Department issued a single interim final regulation for all seven block grants. We conducted regional conferences last August and September to insure that State and local governments were completely informed about and clearly understood the blocks. We provided the State governments with information on local HHS grantees previously funded under the categorical programs which were consolidated into the blocks. Our most difficult and challenging task was taking over the responsibility for closing out grants for the Community Services Administration and implementing the community services block.

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[1] See p. 76.

As of mid-April, our agencies have made grants awarding 75 percent of the block grant funds. Roughly 50 percent of the funds have actually been transferred to the States.

We have been monitoring the States' implementation of the blocks through a variety of means, including voluntary and cooperative collection of information by State associations. Our preliminary assessment is that the States have handled the block grants responsively and responsibly. States have moved quickly to involve a wide spectrum of people and groups.

In our submission for the current fiscal year, we are proposing some changes in existing block grant statutes that would consolidate a few additional programs which can be administered best through the blocks and that would reduce and simplify Federal requirements.

The existing and proposed block grants are part of the logical progression from a federally dominated categorical grants-in-aid system to the State-oriented system proposed under the New Federalism. Under New Federalism, all HHS blocks are included in the set of programs to be turned back to complete State control. Block grants are clearly a midway point in this necessary transfer of authority and responsibility from the Federal Government to the States. The administration hopes to have its New Federalism proposal to the Congress in the very near future. In the meantime, we will continue to press for simplification of both the block grants and other departmental programs.

Since I have just received a draft of the proposed Uniform Block Management Act, I will not respond to its contents provision by provision. I can, however, provide some tentative thoughts. We support fully its goal of making block grant administrative requirements consistent and have attempted to do this for HHS blocks through our regulations and our recent legislative proposals.

States understand the requirements in the current statutes and can live with most of them. They are well along in preparing for block operation for fiscal year 1983. We should be careful about making changes now that add new requirements or increase existing ones. Block grant administration by the States is evolving over this and the next several years. There is time to make changes after we have all had a bit more experience. We would be pleased to work with your staff in further pursuit of that.

Mr. Chairman, in conclusion, I think within my timeframe, we believe that the transition from categorical to block operations in our Department has been both rapid and reasonably smooth. States have been responsible and responsive to their citizenry. We look forward to continued efficiencies and improvements in service delivery effectiveness as a result of the blocks.

I would be happy to answer questions.

Senator **Durenberger**. Thank you very much.

We had two Governors as witnesses last week—one a Democratic Governor from Colorado, and the other a Republican Governor from Missouri. They certainly left us with the impression that your testimony, in the general sense, is accurate. The States have, despite the problems, picked up on the block grants. They have tried to do their best with them. There are some shortcomings, but it is much too early in the process to come to a final judgment.

However, one of the areas of constant criticism—and I am sure I was among the critics last year—was the notion that we could block a variety of categoricals into a variety of areas of need and come up with 25 percent administrative savings every single time. I am wondering what information you have relative to the actual administrative savings that have come about because of the 7 block grants over which you have jurisdiction.

Dr. Rubin. We are just in the process of assessing that. As you know, the blocks obviously have not been in operation for a full year.

One would anticipate that the changes in the governmental structure in the States, annualizing start-up costs might not accurately reflect State costs over the entire year. We are waiting for the first full year of operation before we make any firm assessment. However, preliminary assessments suggest that the States are capable of administering these blocks. They have not made any radical changes, except for perhaps some consolidations. It is unclear to the extent of the administrative savings across the blocks.

Senator Durenberger. In the area of health grants, there has been a great deal of paperwork; there has been a great deal of regulations; and there has been a great deal of what you might call "administrative overburden" when things were approached categorically. The administrative savings from blocking health programs might be greater, for example, than the administrative savings that would be achieved in social services or some other area where there is not an existing set of paperwork.

Do you have some opinion about the judgment with regard to that?

In what program areas might we find the greater amount of savings?

Dr. Rubin. I think that is a point well made. The social services block grant and the energy block grant were, in essence, preexisting block grants. The larger the number of categorical programs that are consolidated, the greater the ability to save money.

So I would agree with you that the greatest percentage savings would most likely be in the health block grants. Of course, the primary care grant is not yet in operation. We would expect to see large economies of scale in that operation, as well.

Senator Durenberger. Let me ask you a question about the issue of targeting. We have Federal categorical programs because the Congress recognizes special populations with special needs. We have targeted the categoricals to those needs, although we don't always do a good job.

One often fears that the blocking process will result in Governors and legislatures just spreading money all over the place and not sensitively reflecting those needs. That is one of the criticisms that I have heard from my own State. In other words, they put a little bit of money in every local government area based on its population.

Is there any evidence yet, that you have seen, that this is happening?

Dr. Rubin. No. We have seen, again in a very preliminary way since these programs haven't been in operation for a long period of time, that different States have responded differently in terms of what they believe are their highest priorities. Some States appropriately have put greater emphasis into, say, hypertension control in the preventive health services grant. Other States have emphasized different parts of the preventive health grant.

Concerning the alcohol, drug abuse and mental health block, I was fortunate enough to appear on a panel with Dr. Stewart Shapiro, who is the administrator of health for the city of Philadelphia. He was fairly clear that this block has given him the ability to get people to work together who hadn't normally worked together before. The alcohol group was working on one corner, the drug abuse group was working on the other corner, and the mental health group was probably in the middle of the street. You can use this block as a lever to consolidate these activities into a rational delivery service mode. I think that has been going on. There has been some consolidation and improvements in effectiveness. I think also that the States each recognize what their particular needs are and have reacted in an appropriate and, albeit, different fashion.

Senator **Durenberger**. Let me ask you about the portability of the transferability provision that allows Governors to move funds from one program to another. I know this varies from one block to another. Your testimony indicated that 33 States have shifted funds from Low Income Energy Assistance to other areas.

I would be curious to know how many dollars were involved. The 33 States, which is a large number, would seem to be an indication that we are putting too much money into Low Income Energy Assistance and not enough money into other social services. Would I be correct in that?

Dr. **Rubin**. Certainly, our request for Low Income Energy Assistance was considerably lower than what the Congress gave us, so we share that concern. I can't give you the precise dollars, but I can tell you into what they switched the money. If you prefer, in the interest of time, we can make that part of the record.

Senator **Durenberger**. Why don't we do that? Maybe my curiosity about it can also be made a part of the record. I was one of those who supported the higher number, but I was supporting a greater percentage being used for weatherization at the same time.

[The material mentioned follows:]

State Use of Block Grant Transfers*

State	LIHEAP Transfer To	ADM Transfer To	Prev. Health Transfer To	CSBG Transfer To	SSBG Transfer To
Alabama	SSBG				
Alaska	MCH		MCH		
Arizona					
Arkansas	SSBG			Older Amer. Act	
California	SSBG				
Colorado					
Connecticut					
Delaware					
District of Columbia					
Florida	SSBG				
Georgia	MCH/SSBG	MCH	MCH		
Hawaii					
Idaho	MCH				
Illinois					
Indiana					
Iowa	SSBG				
Kansas	SSBG				
Kentucky	SSBG/MCH				
Louisiana	SSBG	MCH	MCH		
Maine					
Maryland	SSBG				
Massachusetts					
Michigan	SSBG				
Minnesota	CSBG				
Mississippi	MCH				
Missouri	SSBG				
Montana	SSBG				
Nebraska	SSBG				
Nevada	CSBG				
New Hampshire			MCH		
New Jersey	MCH/SSBG				
New Mexico					ADM
New York	SSBG				
North Carolina	MCH/PH				
North Dakota	SSBG			Older Amer. Act	
Ohio					
Oklahoma					
Oregon	SSBG				
Pennsylvania				Head Start	
Rhode Island					
South Carolina					
South Dakota	SSBG				
Tennessee	MCH/ADM				
Texas					
Utah	SSBG				
Vermont	SSBG				
Virginia	SSBG				
Washington	CSBG/SSBG				
West Virginia	SSBG				
Wisconsin	SSBG				
Wyoming	SSBG			Older Amer. Act	

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* Funds cannot be transferred out of the MCH block grant.

Senator **Durenberger.** Your testimony indicated that 33 States have moved money from Low Income Energy Assistance to other areas. My evidence is that we came up short in Minnesota. By the end of February, people who were entitled to the Low Income Assistance program had used up the assistance to which they were entitled. So Minnesota was out of money while other States were transferring money out of their programs.

Would that say something to you about the total dollars involved or about the formula used in allocating moneys among the States?

Dr. **Rubin.** Clearly it is a lot colder in the northern part of the country than in the southern part of the country. I concur with your observation.

Senator **Durenberger.** If you can add some information to that point, it would be helpful. Not only might it tell us something about the Low Income Energy Assistance program, but it might tell us something about the way in which we should improve the formula or the entitlement.

Dr. **Rubin.** We have preliminary information which suggests that about $92 million was transferred out of the Low Income Energy Assistance program into the other block grants.

Senator **Durenberger.** $92 million?

Dr. **Rubin.** Yes, sir, but I don't have a breakdown of the other blocks. Most of the States transferred money into the social services block grant. The next highest was maternal and child health. The others were insignificant.

Senator **Durenberger.** Good. I promised not to ask a lot of questions, so this will probably be the last one. I will ask you to persuade me as to the merits of moving the women, infants, and children (WIC) program into the maternal and child health block grant.

We were careful last year, in the process of reacting to the administration's fiscal 1982 recommendations, to avoid pitting persons in need against each other on the basis of age, sex, or some other criteria. In the area of maternal and child health, we tried to take a first step toward developing a focus on what the appropriate Federal role ought to be.

Since your fiscal 1983 recommendations came out, I have noticed that a lot of people who have worked with the WIC program have objected, and quite strenuously, to the proposal to block it with MCH. A couple of health professional organizations, like the AMACH and the American Academy of Pediatrics, have not yet taken that position, although they have stated positions supporting WIC.

Can you make an argument as to why this special nutritional program ought to be moved into the block grant?

Dr. **Rubin.** I think, in order to make the argument, one needs to disaggregate two pieces of the argument. The first is on a programmatic basis, does the consolidation make any sense? The second question which, in my own judgment, is the question most people are addressing when they oppose the merger is: Are the dollars that we are providing for the new block grants sufficient to carry out the purposes as articulated by people who would oppose the transfer?

I think if one does that, it becomes pretty clear that consolidating these two programs makes a lot of sense on a programmatic basis. There is a study done by the Research Triangle Institute. They found that the merging of the two programs—supplemental nutritional food, education, and preventative health care, as well as maternal and child health care activities—was something they seemed to find throughout the country. The two programs have very similar objectives, which is mainly to improve the health outcomes of new mothers and infants. They serve pretty much the same population.

The idea of linking health and nutrition programs reflects the fact—which I'm sure you will agree, and I, as a physician, will certainly agree—that good nutrition is certainly a key to good health, certainly in prenatal and postnatal care. By combining the MCH activities into a single block grant, we will give the States the maximum flexibility to target the resources for health and nutrition services to those who require them.

The same providers and grantees frequently administer both programs. So I think a compelling case can be made for combining these programs, absent any discussion of how many dollars we are putting into the programs. Clearly, that is the single issue that I think about which people disagree.

I would remind you only of two things. One is that this program was proposed for transfer to our Department from the Agriculture Department. As others in our Department have previously testified before the Congress, we were unfamiliar with the particulars of the program. This was a program that grew from around $230 million 2 years ago to around $900 million last year. It doesn't seem unreasonable to cut it back to the $600-or-so million that we are talking about for inclusion in the block grant. Obviously, there are a lot of people across the country who feel differently. I think that the ball, as they say, is now in your court to make the final decision as to the precise amount of money that will be available for this program. But, on a programmatic basis, I have yet to be persuaded that there is anything wrong with combining the programs.

Senator DURENBERGER. Would you speak also, in that regard, to the commodity supplemental food program, the predecessor to WIC? It is still in existence in 21 project areas around the country. I am sure this is one of those holdovers from the Agriculture Department. The Department is providing Federal aid via commodities to the States which, in turn, distribute them to low-income agencies, pregnant women, infants, and children who reside in these areas.

Is this one of the programs that would go in connection with a blocking of this process? Or, would we continue the commodity purchase program as part of meeting the nutritional needs of women and children?

Dr. RUBEN. I can't answer that question directly. I'm just not familiar enough with the specifics of that program to respond. We will provide an accurate response for the record.

Senator DURENBERGER. I wasn't familiar with it either until I read about it. I appreciate your response.

[The information referred to follows:]

While this program is part of the block, the Federal Government will continue to assist in obtaining commodities. I am not familiar with the specifics of this program, but as I understand it, under current law, the Department of Agriculture arranges for the purchase and transport of food to local projects within States, which then distribute these commodities to the needy. Under the block grant, States can request the Department of Agriculture to continue the purchase and transport of food, but must reimburse the Department for this.

Senator DURENBERGER. Thank you, Dr. Rubin, for being here today. I apologize that we couldn't start earlier to have more time for questions.

[The prepared statement of Dr. Rubin follows:]

PREPARED STATEMENT OF DR. ROBERT J. RUBIN, M.D., DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Chairman, I appreciate the opportunity to appear before this Subcomittee on behalf of Secretary Schweiker to discuss the implementation of the health and human services block grants. I have been involved closely in both the design and implementation of these blocks, having been charged by the Secretary with preparing the legislation sent to the Congress in 1981, and coordinating implementation after enactment of that legislation.

On August 13, the President signed into law the Omnibus Budget Reconciliation Act of 1981 which, among other things, consolidated 33 categorical programs into seven health and human service block grants administered by my Department. Working closely with the States, we moved rapidly to implement these blocks. We issued interim final regulations for all the blocks on October 1, 1981, and most States began operation of the blocks soon thereafter. From our vantage point, implementation has proceeded rapidly and smoothly, without major problems other than delays in funding. These delays were caused principally by the lack of a fiscal year 1982 appropriation.

I will discuss some of the highlights of the implementation, but before proceeding to do that, let me briefly outline the nature of the HHS block grants.

THE HHS BLOCK GRANTS AND THEIR STATUS

We administer seven block grants, four in the health area, two that fund social services, and one that provides funds for home energy assistance for low-income households. Six of these block grants, at a total funding level of $5.5 billion, are in operation this year; the primary care block is authorized to begin operation on October 1, 1982. The seven block grants are --

- Preventive Health and Health Services, which consolidated categorical programs for Hypertension Control, Health Incentive Grants, Risk Reduction and Health Education, Fluoridation, Rodent Control, Emergency Medical Services, Home Health, and Rape Prevention and Crisis services.
- Alcohol and Drug Abuse and Mental Health Services, which consolidated five categorical programs, provides mental health, drug abuse and alcoholism prevention, treatment and rehabilitation services, and services for the chronically mentally ill.
- Maternal and Child Health, which consolidated nine programs, enables States to assist and improve the health of mothers and children through a State-administered program and also provides for discretionary funds to support special research and service programs, principally those addressing hemophilia and genetic diseases.

- Primary Care, which subsumed the categorical Community Health Centers program, assists States in providing primary care services.

- Social Services, which consolidated three programs, provides funds for social services directed at achieving or maintaining economic self-support or self-sufficiency; preventing or remedying neglect, abuse or exploitation of vulnerable children and adults; preventing or reducing inappropriate institutional care; and securing referral or admission for institutional care when most apropriate.

- Community Services, which replaced many of the programs previously administered by the Community Services Administration, assists States in providing health, nutrition, housing, and employment-related services to improve the standard of living of low-income persons.

- Low-Income Home Energy Assistance, which redesigned the FY 1981 Low-Income Energy Assistance program, provides grants to States to assist low-income households to partially offset the costs of home energy, through heating, cooling, emergency, and low-cost weatherization assistance.

Transition provisions exist in four of the block grants' statutes: Maternal and Child Health; Alcohol, Drug Abuse and Mental Health; Preventive Health and Health Services; and Community Services. In these blocks, States may either implement the block in FY 1982 or allow the Federal Government to continue administering the categorical programs.

As I mentioned, the Primary Care block grant does not become effective until October 1, 1982, at which time a State may choose to accept the block grant for that and succeeding years, or allow us to continue administration of the categorical Community Health Centers program.

Currently, most of the 50 States and the District of Columbia are operating the HHS blocks. All States are operating the energy and social services blocks. Forty-nine States are operating the Alcohol, Drug Abuse and Mental Health block, and 48 States are operating the remaining two health blocks. Forty States have opted to administer the Community Services block grant. In addition, 217 grants have been made directly to Indian tribes from the four block grants which authorize such funding this year.

HHS ADMINISTRATION

Responsibilities

Administration of the block grants at the Federal level is primarily the responsibility of the Department's Operating Divisions. The Office of Human Development Services manages the Social Services block grant, the Social Security Administration manages the Low-Income Home Energy Assistance block grant, the Public Health Service manages the health blocks, and a new division, the Office of Community Services, was established to administer the community services block and handle closeout of Community Services Administration grantees.

To coordinate implementation activities and ensure consistency across the various agencies administering the blocks within HHS, Secretary Schweiker established a Departmental task force under my oversight to identify and rapidly resolve implementation policy issues. We also have worked closely with the Block Grant Implementation Task Force established by the Office of Management and Budget that performed a similar function across the Federal Government.

Regulations and Information Exchange

Immediately after enactment of the blocks, our priorities were to ensure that all the States, territories and eligible Indian tribes had accurate information about the blocks, and to issue the regulations.

We provided States basic information on the block grants and on local grantees funded under project grant programs consolidated into the blocks. We worked closely with the other Departments administering block grants, the OMB, and the White House Intergovernmental Affairs staff to develop and conduct eight regional conferences during August and September. At these conferences, State and local officials were provided with basic information on the new block grants and State officials were given the opportunity to raise issues of concern. Approximately 4,500 State and local officials attended these conferences.

We also moved rapidly to issue interim final regulations. On October 1, 1981, just six weeks after enactment of the block legislation, the regulations were published.

To ensure consistency among the blocks and flexibility for the States, we prepared a single rule for all seven HHS block grants, and limited the regulations to the minimum necessary for implementation and clarification.

While the interim final rules had full regulatory effect, we asked for public comment and received over 200 replies. The interim rules have been revised based on these comments. The final rules should be signed by Secretary Schweiker next week, and published in the Federal register soon. There have been few changes in the regulation itself, but a substantial number of clarifying changes have been made in the preamble.

Funding

As of April 10, 75 percent of the monies available for the blocks had been awarded to the States. This included nearly 100 percent of the low-income energy assistance funds, which needed to be made available quickly for fuel assistance and weatherization activities during the winter months. Approximately 50 percent of the funds available for all the blocks actually have been transferred to the States.

Technical Assistance to States and Localities

We are continuing to exchange information with, and provide technical assistance to, States and localities concerning the blocks. We are providing States with results of Departmental research, arranging for conferences and workshops on practices of interest to several States, and assisting States in locating sources of technical expertise in the private sector or in other States. For example, the National Governors Association, the National Association of Counties, the National League of Cities, and the U.S. Conference of Mayors are sponsoring a series of conferences through a grant from the Department. These conferences will provide opportunities for representatives of State and local governments to share information and ideas about the implementation of the block grants, primarily the Social Services block. The Social Security Administration also has held conferences on the Low-Income Home Energy Assistance block grant.

In addition, the health block grant statutes allow States to request and have detailed to them professional staff of Federal agencies in lieu of some of their block grant funds. Ten States are taking advantage of this provision to obtain the services of the Public Health Service specialists.

Monitoring Implementation

We are monitoring block grant implementation to identify and help resolve any problems. In line with the intent of the statutes, we cannot involve ourselves in States' day-to-day administration of the blocks, take positions on resource allocation decisions, or require the kind of detailed data often provided on the categorical programs. Interestingly, the blocks have stimulated close cooperation between us and organizations of States about monitoring and data collection. For example, associations of State agencies, such as the National Governors Association, are collecting data on a voluntary basis and we are working closely with them.

STATE ACTIONS

Through these voluntary information collection efforts, discussions with State officials and others, and review of State applications and plans, we believe we have a fair idea of what the States are doing, but our data are not complete nor highly quantitative. I can, however, provide you a summary of our preliminary assessment of what is happening in the States in several key areas of block grant operation.

Involvement by State Legislatures and Governors

In general, the governors and State legislatures have been directly involved in block grant implementation. The governors' offices have been more heavily involved in the planning and resource allocation of the block grants than they were in many Federal categorical programs. About two-thirds of the governors established task forces or similar groups to study implementation options and the impact of Federal budget reductions on State programs. In some States, the governors and their staffs also took major roles in coordinating block grant implementation. The governors of several States employed strategies that included holding public hearings, and preparing analyses of issues for the legislature.

State legislatures have been involved primarily with establishing broad priorities for programs and services funded by the blocks.

In several States authority to apply for, accept, or expend Federal funds resides with or must be authorized by the legislature. Anticipating the Federal block grant initiative, several State legislatures passed laws requiring legislative concurrence with the application for and acceptance of Federal funds. Many other State legislatures have taken steps to ensure legislative review of block grant implementation activities.

State Administration

As expected, the State executive branch agencies continue to retain authority in planning and administering programs funded by the block grants, especially since the completion of transition activities. In most cases, the agencies designated as responsible for implementing the block grants were those that administered the corresponding programs prior to the block grants.

Even though this is the first year of block grant implementation and States had little lead time in preparing for the block grant, some organizational changes have been made as a result of the block grants. For example, in Louisiana the governor placed the Community services block grant in the State Department of Labor. In Vermont, the governor assigned a block grant manager for each block grant. Several States also made organizational changes within agencies designated to administer block grant programs.

We believe that States may make more administrative changes as they have an opportunity to make longer range plans in response to their own State needs and priorities.

Public Hearings and Public Participation

There appears to have been greater access by the public to information about the intended use of block grant funds than was the case with the categorical programs. In accordance with the Federal block grant legislation, all of the States undertook activities to inform the public of the availability of block grant pre-expenditure reports for public review and comment. Most of the States published advertisements in one or more major newspapers noting the locations where copies of the reports were available. In a few States, toll-free telephone numbers were provided and public service announcements have been used.

In addition, a large number of States sponsored special activities to inform and consult with the public, local government officials, service providers, and interested organizations. These activities generally related to planning for block grant implementation and establishing service and program priorities.

For many of the States, FY 1982 was the first year that the public has been involved in the planning process for some of the block grant programs. While some States did not provide extensive opportunities for public involvement because of time constraints, they plan to do so prior to FY 1983. Now that the States have had an opportunity to review their processes, there are indications that the States may standardize participation procedures across the block grants and rely more extensively on public hearings of the legislatures.

Service Delivery

In general, the approaches to service delivery and service delivery priorities that States described in their block grant applications and plans appeared to be similar to previous practices. Few major shifts were planned for the first year of block operation.

Inter-Block Transfers

Five blocks allow limited transfer of funds to other blocks. So far, 36 States have taken advantage of the transfer provisions or are planning on doing so. Thirty-three States are transferring funds from the Energy block to other blocks, primarily the Social Services block. Four other States have transfered funds to Maternal and Child Health from the other two health block grants. From the Community Services block, three States are transferring funds to the Older Americans Act program and one State to the Head Start program. One State has transferred funds from the Social Services block to another block grant program.

In sum, we believe that States have handled the block grant programs responsively and responsibly. States have moved quickly to expand the involvement of a wide spectrum of people and groups. But, because of the short period of time between passage of the legislation and implementation of the block grant programs, they have moved slowly in making changes in the service delivery systems, service priorities and administrative structures.

PROPOSED LEGISLATIVE CHANGES

For fiscal year 1983, we are proposing some changes in existing block grant statutes that would consolidate a few additional programs, and reduce and standardize Federal requirements. We also are proposing to establish one additional block for child welfare services. Specifically --

- We are proposing that three additional programs be consolidated in the Primary Care block grant--Family Planning, Migrant Health, and Black Lung Clinics--and that the requirements imposed on the States under this block be simplified significantly. We also are proposing that States be required to administer this block after a one-year transition period. Currently, because of onerous requirements (such as prohibiting any of its funds from being used for administrative costs), it appears that only a few States will choose to operate it in FY 1983 unless the legislation is changed.

- For the Maternal and Child Health block, we are proposing that the Department of Agriculture's Women, Infants and Children's program be combined with it because those programs are often operated by the same agency at the local level, and because nutrition and health services delivered together can improve people's health substantially. We also are proposing simplification and standardization of administrative requirements and inclusion of the special grant component of this block in the State grant portion.
- We are proposing that the Emergency Assistance program authorized by title IV-A of the Social Security Act be consolidated into the Low-Income Home Energy Assistance block, thereby creating a mechanism for assisting low-income families and individuals with emergencies of all types.
- Finally, the new child welfare block grant would consolidate current programs providing funding for foster care, adoption assistance, and child welfare services under parts A, B, and E of title IV of the Social Security Act, providing a more flexible funding mechanism for States to protect the welfare of children. The safeguards for foster care children created by the Congress in the Adoption Assistance and Child Welfare Act of 1980 are maintained.

Proposed amendments to existing block grants to further reduce and simplify administrative requirements imposed on the States include changing from annual to biennial audit requirements, reducing the required content of State applications, and standardizing interblock transfer provisions.

THE NEW FEDERALISM AND THE BLOCKS

The existing and proposed block grants are part of a logical progression from a federally dominated categorical grant-in-aid system to the State oriented system proposed under the New Federalism. Under the New Federalism, all HHS blocks are viable candidates for inclusion in the set of programs to be turned back to complete State control over several years. Block grants are a mid-way point in this necessary transfer of authority and responsibility from the Federal Government to the States. The Administration is working with the National Governors Association and other State and local organizations on specific provisions of its New Federalism proposal, and plans to have its proposal to the Congress soon for consideration. In the meantime, we will continue to press for simplification and standardization of the block grants and other Departmental programs, such as grants for welfare administrative costs.

THE UNIFORM BLOCK GRANT MANAGEMENT ACT

Since we just received a draft of proposed "Uniform Block Grant Management Act," I cannot respond to its contents provision-by-provision. I can, however, provide some initial thoughts.

First, we support fully its goal of making the block grant administrative requirements consistent, and have attempted to do this for HHS blocks through our regulations, and our recent legislative proposals. Thus, the Act probably would have little real impact on HHS programs. We view block grant administration by the States as something that is evolving over this and the next several years. States understand the requirements in the current statutes and are well along in preparing for block operation for FY 1983. Making changes now that add new requirements or increase existing ones may slow that preparation.

Second, concerning some particular provisions of the Act, we are unclear how they relate to similar provisions in current law. For example, why does the head of a Federal agency need to approve State payments for audits and reserve one percent of the block funds for this purpose? Under our blocks, States can use block monies for this purpose without prior approval. And what is the relationship to the transition provision in the draft bill to transition provisions in current law for the blocks?

In sum, we suggest proceeding very cautiously in formulating any legislation that would standardize all administrative requirements, giving careful consideration to its timing and potential impact on State operation. It would be useful to gain more experience with block administration before making major changes. Regardless, we would be pleased to continue discussions with this Subcommittee on ways to standardize and simplify block grant administrative requirements.

CONCLUSION

Mr. Chairman, in conclusion, we believe that the transition from categorical to block operation in the health and human services area has been both rapid and reasonably smooth. States have been responsible and responsive to their citizenry, and we look forward to continued efficiencies and improvements in service delivery effectiveness as a result of the blocks.

THE HHS BLOCK GRANTS

	PURPOSES	PROGRAMS CONSOLIDATED	FY 1982 APPROPRIATION ($ millions)
Preventive Health and Health Services	Prevent injury, illness and death and improve the quality of life.	o Hypertension Control o Health Incentive Grants o Risk Reduction/Health Education o Rodent Control o Emergency Medical Services o Rape & Crises Services o Fluoridation o Home Health	81.6
Alcohol, Drug Abuse and Mental Health	Provide mental health, drug abuse & alcoholism prevention treatment & rehabilitation, and services for chronically mentally ill.	o Alcohol Project and Formula Grants o Drug Abuse Project and Formula Grants o Mental Health Services	434
MATERNAL AND CHILD HEALTH	Improve health of mothers and children.	o Grants for MCH and Crippled Children's Services o Payments for SSI Disabled Children o Sudden Infant Death Syndrome o Lead-Based Paint Poisoning o Adolescent Health o Hemophilia o Genetic Diseases o Research and Training	347.5
PRIMARY CARE	Improve health of populations in need.	o Community Health Centers	Not Authorized until FY 1983

	PURPOSES	PROGRAMS CONSOLIDATED	FY 1982 APPROPRIATION ($ millions)
SOCIAL SERVICES	Promote economic self-support and self-sufficiency. Prevent neglect, abuse and exploitation. Provide alternatives to institutional care as appropriate.	o Social Services o Day Care Services o State and Local Training	2,400
COMMUNITY SERVICES	Provide health, nutrition, housing and employment-related services to low-income persons.	o Community Action o Discretionary Programs — Community Development Corporations — Community Facilities — Youth Sports — Rural Housing — Migrant and Seasonal Farmworkers	348
LOW-INCOME HOME ENERGY ASSISTANCE	Provide heating, cooling, emergency, and weatherization services to low-income households.	o Low-Income Energy	1,875

BLOCK GRANT STATUS

	STATES IN	STATES NOT IN	TERRITORIES IN	INDIAN TRIBES
PREVENTIVE HEALTH AND HEALTH SERVICES	48 + D.C.	California New York	2	2
ALCOHOL, DRUG ABUSE & MENTAL HEALTH	49 + D.C.	California	4	6
MATERNAL AND CHILD HEALTH	48 + D.C.	California New York	4	NONE AUTHORIZED
SOCIAL SERVICES	50 + D.C.	NONE	6	NONE AUTHORIZED
COMMUNITY SERVICES	40 + D.C.	Alaska California Colorado Florida Gecrgia New Mexico New York Texas Virginia W. Virginia	6	86
LOW-INCOME HOME ENERGY ASSISTANCE	50 + D.C.	NONE	6	123

Senator DURENBERGER. Our next two witnesses will appear as a panel. They are both elected officials of local governments. One is Mayor Angelo Martinelli of Yonkers, N.Y., who is representing the U.S. Conference of Mayors. We also have Commissioner Diane Ahrens, of Ramsey County, Minn., which includes the city of St. Paul and some of its suburbs. Ms. Ahrens is here representing the National Association of Counties. Let's start with Commissioner Ahrens.

TESTIMONY OF DIANE AHRENS, COMMISSIONER OF RAMSEY COUNTY, MINN., ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES, ACCOMPANIED BY RONALD GIBBS, ASSOCIATE DIRECTOR, NATIONAL ASSOCIATION OF COUNTIES; AND ANGELO MARTINELLI, MAYOR OF YONKERS, N.Y., ON BEHALF OF THE U.S. CONFERENCE OF MAYORS, ACCOMPANIED BY LAURA DEKOVEN WAXMAN, ASSISTANT EXECUTIVE DIRECTOR, U.S. CONFERENCE OF MAYORS

Ms. AHRENS. Chairman Durenberger, I have on my left Ron Gibbs, associate director of the National Association of Counties (NACo).

I want to say that I have brought with me good Minnesota weather to Washington. I hope you appreciate that.

I am an elected county commissioner in Ramsey County. I serve as a member of the Human Services Policy Steering Committee for the National Association for Counties. I am pleased to appear this morning on NACo's behalf to present our views on the effects of the nine most recent block grants on county government, its operation and its capacity to continue the services.

As NACo stated before this subcommittee last October, counties support wider uses of the block grant mechanism. We do not believe, however, that block grants should be used as a budget cutting tool. In fact, Mr. Chairman, we passed a resolution at our March legislative conference which calls for a moratorium of all further budget cuts, including the fiscal year 1983 proposals. Our solution urges a pacing of the devolution process.

Regarding block grants: It is extremely difficult to provide you with a clear and accurate record of their impact. Frankly, it is just too early to assess. As the National Governors' Association report says: "Most were compromised sharply in the congressional process * * * States had little opportunity to plan." This and other factors have delayed the impact. It would also be more misleading to make an assessment in isolation from the impacts of inflation, of increasing unemployment, and of the States' fiscal crises. All of these compound the impact on the procedure and the growing number of distrusts in our communities.

It is our belief, Senator, that the real test will begin under the next fiscal year. With much tighter budgets, far fewer Federal dollars, States' assumption of new responsibilities and a year of planning time, the full effects of the block granting experience will be better known. In the meantime, however, I can provide you with a few examples. As you are well aware, not all States operate the same. Some States will design excellent systems and provide ample opportunities for local governments to be involved in the planning process. On the other hand, other States will simply provide local governments with a plan, fait accompli.

In my State, intergovernmental cooperation involving counties has been largely window dressing. When done, it is more often than not done to suit the State's hidden agenda. This becomes more understandable when one considers that counties are viewed as an administrative arm of the State government, particularly the State legislature. Only 500 counties in the country have home rule. We are viewed as that unit which functions to do State government's bidding.

The following could serve to illustrate that the block grant programs with reduced funding is ill advised.

In Minnesota, we have labored under a social services block grant for over 2 years. Our legislature passed the Community Social Services Act which simply combined the title XX money and the State categorical money for social services. This one pot was then allocated on a formula basis according to a county plan. Just what social services were to be provided was left largely to the county's discretion. Shortly thereafter, the State imposed a levy limitation on the human services budget and the title XX program was cut at the Federal level.

Ramsey County was forced to cut social services programs by one-third. We cut or eliminated 93 purchase of services contracts. We cut services to the mentally retarded, the mentally ill, and the chemically dependent by 36 percent. We eliminated all of our support services for day care, and we cut homemaker/chore services by 35 percent. These are all services to people within the safety net group.

Prior to the funding cutbacks, this block grant approach might have worked rather well. It was a good idea. It certainly gave counties a great deal more control over important decisions. The block grant concept could work, and work well under certain conditions. Those conditions are: A guaranteed pass-through to local units, no reduction in the appropriations, and a lessening of Federal and State regulations.

In California, the experience is quite different. The State legislature has a permanent provision for only the social services block grant and has obtained only a temporary provision for the others. The temporary provision requires that funding and reductions be passed through on a pro rata basis to all current providers. It also established a task force with token county representation.

Many States have developed advisory councils. Not all advisory bodies are truly advisory. Some have been created because of the mandated requirement under CDBG, and not necessarily because of an intense interest on behalf of the States to consult and work with local governments in the planning process. What we have seen is an increase in State Advisory Commissions on Intergovernmental Relations, or State ACIRs. We view this as a positive outgrowth.

Let me move quickly to budget cuts. Though the 1983 budget is not this morning's topic, we believe it is too intertwined with the problem to ignore. NACo continues to endorse the goal of a balanced budget. It should not, however, be achieved at the expense of domestic programs.

Last year, counties sustained over a 15-percent reduction in Federal funding. The efforts that county governments made to maintain service levels despite funding cutbacks were tremendous. While the full impact of those cuts have not been totally realized, there is a pervasive feeling among county governments that all the fat has been eliminated. Last year's cuts forced many counties to reduce employment, to cut back on service hours, and to postpone badly needed investments in the infrastructure.

Many counties had to raise property or sales taxes. In Ramsey County, the share of the property tax which the commissioner levied increased 20 percent this year. The total property tax levy in the city of St. Paul went up by 40 percent this year.

Counties are facing additional burdens as they strive to support the needy who are now ineligible for AFDC and food stamps. In our county, with 11,000 Indo-Chinese refugees, we face the increasing impact on the property tax because of Federal Government cutbacks in refugee support. Many counties foresee difficulty in maintaining the fiscal viability of county hospitals.

Because of State cuts in health services for the indigent, our county had to levy additional funds to provide this care at our public hospital. Of our local county's increase in the tax levy, 75 percent was attributable to those cuts.

Mr. Chairman, we do have some recommendations as to what we would suggest in the written statement. I see my time is up.

Senator DURENBERGER. Whatever recommendations you have will be included in the record. We thank you for being here.

Mr. Martinelli?

Mr. MARTINELLI. Mr. Chairman, I appear before you today on behalf of the U.S. Conference of Mayors, where I chair the Subcommittee on Human Services. I have with me Laura Waxman, who is the assistant executive director of the Conference. We are very pleased to have this opportunity to discuss block grants because they are a matter of great concern to my fellow mayors across the country.

Last June at the annual meeting of the Conference of Mayors, we adopted a comprehensive policy on block grants. While mayors have supported the concept of block grants and grant consolidation for many years, there are certain provisions which we feel block grant legislation should contain.

These include:

1. The granting of funds directly or through the States to local governments of appropriate size, with a demonstrated service delivery capacity, which wish to receive them;
2. The involvement of local governments in the planning and resource allocation process so that locally identified needs can be taken into account;
3. An adequate level of funding;
4. Maintenance of effort requirements and measures to avoid significant disruption of existing programs;
5. The allocation of funds among and within the States based not just on population, but targeted to need and the population in need of service;
6. Eligibility requirements to insure that the people served through the block grants are in need;
7. Assurances that State administrative requirements will not be onerous, and a 5–10 percent limit on the administrative costs that can be incurred;
8. A transition period during which the block grants can be implemented;

9. The collection of data to enable annual monitoring and evaluation of the block grants by the Federal Government to assure that the funds are properly spent; and

10. A logical grouping of programs which, at a minimum, combines programs whose purposes are related and will maintain a Federal response to particular national problems.

It is the feeling of the U.S. Conference of Mayors that provisions such as these will make it more likely that block grants will adequately address the needs of urban residents, particularly those in need. Unfortunately, the block grants enacted through the Reconciliation Act last summer contained only a few of these provisions.

The Uniform Block Grant Management Act which you have proposed, Mr. Chairman, does contain a number of these provisions, however. We intend to continue working with you on that legislation. Let me make several comments on your legislation.

While we applaud the consultation requirements in the legislation, we feel they could be strengthened to assure that local government officials have an opportunity to take part in the State decisionmaking process governing the allocation of funds.

There should be direct funding to local governments or strong passthrough provisions. Funds should be targeted to areas and populations in need. There should be eligibility requirements to assure that those people who receive the services are themselves in need.

We support the proposed cap on State administrative costs.

There should be assurances that multiyear funding projects will be continued for as long as the local government has made a commitment to the project. This is especially important under the "Small Cities" portion of the Community Development Block Grant program. The Housing and Community Development Amendments of 1981 included carefully-developed transition provisions which reflect the unique history of the small cities program. These provisions would be superseded by your bill. We feel that they should be specifically exempted. Indeed, the 1981 amendments include a number of solid provisions which define the State-local relationship.

We feel it would be advantageous to exempt the Community Development Block Grant program entirely from the Uniform Block Grant Management Act.

What we have been able to learn about the implementation of the block grants so far convinces us of the need for many of these provisions. In a survey done of 100 cities, by the U.S. Conference of Mayors in November, we learned that:

Of the cities responding, 55 percent said that the State had neither consulted with them nor offered an opportunity to participate in the State's decisionmaking process. And 38 percent said that they had not been able to get information from their States about the implementation of the block grants.

Since November, we have not had an opportunity to get systematic information from cities on block grant implementation, but we have a general sense of what has been happening. Things have not been all that different than they were before block grants. The program cuts have not been as severe as expected. Differences in funding cycles made more funds available in the current fiscal year than had been anticipated.

Many city officials had little opportunity to be involved in State programs, like title XX, prior to the block grants, and have had little opportunity since their enactment. Cities often had trouble getting information from the States before, and they still have trouble. Although the first year of block grant implementation saw little change, more is anticipated in future years.

The community services block grant is a case in point. The legislation requires that the States continue to fund designated community action agencies during the first year of implementation, but then it opens up the possibilities to other local governments and agencies for the succeeding years. There was little change recorded during the first year. Indeed, a survey done by the Institute for Local Self-Government in Berkeley showed that the local character of community action agencies is basically being retained. The States are still funding community action agencies, and are not mandating program priorities or particular services. There is a definite trend, however, toward distributing the community services block grant funds throughout the State, rather than targeting them to needy areas. The requirements for administration and reporting are still up in the air.

We understand that a number of States are considering legislation, such as what has been enacted in Montana, which would pass through the community services block grant to all counties primarily on the basis of population, but also of economic need. While this does represent the pass-through which we always call for, it is one that is not targeted and one that would spread the funds around so thinly that little could be accomplished with them in any one community.

Our main concern is that the needs of urban residents be met. While it is still too early to evaluate the block grants which have been enacted, little has happened to allay our concerns. For this reason, it is the position of the U.S. Conference of Mayors that action on the additional block grants proposed for fiscal year 1983 be deferred until the block grants already enacted can be evaluated. In addition, we feel it does not make sense to enact another series of block grants until basic decisions regarding the turnback and trust bond proposals are made. It would make little sense from either a managerial or a service delivery standpoint to make major programmatic changes and then make them again 1 or 2 years later.

Mr. Chairman, the mayors are grateful to you for the significant effort you have made to try to rationalize our Federal system. We appreciate the opportunities afforded us so far to take part in this process. We are anxious to continue to work with you.

Senator DURENBERGER. Thank you for your statement.

Let me ask you both two general questions. One, I am getting the impression that, if it weren't for many of the Governors and some other people who got involved in this process. It might have been facing a real disaster in looking back over block grant implementation.

It seems to me that we, in Congress, did everything in our power to make it almost impossible to adequately implement the block grants. We proposed them back in March; we passed them in July; we made them effective in October; we appropriated the money in December; then we changed some of the appropriations. Lord knows how anybody did any good with any of it. However, a lot of good has been accomplished which is evidenced by the fact that, in your testimony today, both of you can indicate some successes. The Governors' conference report also indicates that some good was accomplished.

Would it be fair to say that, generally, at the State level, sincere, good-faith efforts were made to do a good job of implementing the block grants? Or, were people just sitting on their hands? Wasn't there an awful lot of activity out there, with people trying to do a good job in implementing the block grants?

Mr. MARTINELLI. I am not going to comment with regards to the desire to do a good job.

The one thing I can tell you is basically taught from experience. Our experience has been that, if there aren't these mandated pass-through requirements by the Federal Government, it is not going to come down to our level in the proper way.

Now, there may be desires to do a good job, but by the same token—a perfect example of this is the Aging money that has come from the Federal Government to the States. It then passes on to the counties. In the city of Yonkers, which has almost 200,000 people, we have set up an office in the agency. We fund that out of our budget. Therefore, the administrative costs are already included there. Because there is no requirement to pass it directly through to the city of Yonkers, it goes through the State where administrative money is siphoned off. It then goes to the county, where administrative money is siphoned off. They administer the program and dole it out on a target program to the city of Yonkers.

We would like that money, if it was earmarked from the Federal Government, passed through the State and the county, without being touched in regard to administrative money. We have already provided the administrative money to the local level. We have that money. We put it into our budget. We can then use the full dollars to be able to help our elderly.

What we are fearful of is that it is going to operate that way, unless there are provisions in the Federal law that say, "You must pass it through." As long as we are adequately the delivery point, we can assume the delivery of those services. There are certain criteria that make sure that a local government can handle that money. I think that should be done.

Senator DURENBERGER. Diane, before you respond to my first question, I would like to ask a second one which the mayor brought up. That is, there is probably a difference between blocking some formula categoricals and blocking some of the project grant programs. It is my observation that the States don't have a lot of experience in making grants to local governments or to anybody else. That experience usually lies at the county level where you do contracting for services. States do not have much experience in making grants, so the mayor may be right. In New York, they don't know how to make a grant to Yonkers or any place like that.

I would like you—in reflecting on the degree to which a block grant's success is due to people working very hard to try to make it a success—to also reflect on the ability of States to take over the responsibility for making grants to local governments. What faith would you have in a State like Minnesota, or any other State, being able to manage project grants and other kinds of grants to local governments?

Ms. AHRENS. Mr. Chairman, in terms of your first question: yes; I think we are trying very hard on a local level. We are trying very hard on the State level. It is not a problem of trying.

The problem comes where the block grant has been promulgated at a time when many other things are beginning to fall apart—and you know about the fiscal situation in the State of Minnesota and its impact on the counties. They couldn't levy a limitation on the human services area in the government, which is over the entitlement programs. There is a levied limitation on the entitlement programs as well as on the social services programs. In order to pay our entitlement bills, we simply had to eliminate vast areas of our social services programs at the same time we were cutting title XX.

You can't look at any of these in isolation from what is going on around us. Unemployment is going up. We have 11,000 refugees who have moved off—not all of them, but hundreds of them—moved off of AFDC onto GA. The Federal Government—and this is not assured—will only pay 100 percent of GA for 18 months. Many of our Mongol members will never become job sufficient in that 3-year period because of their special problems.

You just cannot talk about block grants and their success or failure in isolation from all of the other things that are happening to us. I can't think of a period in the history of local governments when we faced chaos from day to day.

Yes, we are trying to assist at the State level and at the local level in terms of the whole block grant process. NACo, the U.S. Conference of Mayors, and the League of Cities have been putting on regional conferences around the country to help local administrators and local officials sift through this grant process so that they can do a better job. Yes, we are trying.

Senator DURENBERGER. What we are trying to do in these hearings, if at all possible—and it may not be—is to lift the process we are going through out of the realities of current economics. We are all very familiar with the unfortunate coincidence of recession, unemployment, cutbacks, and the resistance on the part of taxpayers at the various levels to pick up the gap. What I am searching for is what is good about the process and what needs to be changed.

It strikes me that the other problem we have here is—and here I certainly reflect maybe on my own State—that the States, in general, have sort of become intermediaries in a lot of these areas we are talking about. Generally, they have just become intermediaries between the Federal Government and the local governments. The local governments do all the work and really spend the money and meet the needs. The Federal Government provides the regulations, the financing, the audits, the paperwork, and all that sort of thing.

The States just sit there, in between, and shuffle things back and forth. Generally, what the States have long been doing is trying to address some of the fiscal problems of local governments.

Clearly, when you talk about the levy that the Minnesota Legislature put on, that levy probably contributed more to the 35 or 36 percent shortfall than did Reaganomics, blocking, or any of that sort of thing. We didn't cut those programs by that much. A lot of it was the way the States reacted to their traditional role of taking on more and more and more of the financial responsibility for running local government. I suppose our State is ahead of most States. However, something in the neighborhood of 75 percent of State revenues now go to local governments.

You come on times of crunch, and you don't have Federal moneys to spend. You have already indexed inflation out of your income tax, and inflation is still being reflected in the high cost of services. So, your real estate tax and your local tax goes up. It isn't going up because the Federal Government is starting a blocking process for categoricals.

What we are looking for in these hearings from local government is how we, in the process of making States more responsible again, can do a better job of blocking programs to or through State governments. I think your observations on that is that it takes something like public participation and local government participation. I think the mayor quoted some statistics which I assume came from your November study.

Mr. **Martinelli**. Yes.

Senator **Durenberger**. I assume things have improved since then, in terms of local government participation in this whole process. Is that not correct?

Mr. **Martinelli**. We haven't really determined whether or not they have improved at this point. We sense that they have improved. All we are really saying is that, somewhere along the line in the Federal regulation, we would like direct pass-through. We would like to be involved in the decisionmaking of at least telling the States to consider talking to local governments.

Usually you have three stages of development: the State, the county, and the local governments. Each one is politically different, in most cases. Politics does play an important role in how the funds are distributed. What we are worrying about is something which you brought up before, Mr. Chairman. The fact that the States might tend to say, because they are magnanimous, "We want to provide a little bit to all the voters of the State." Therefore, they dissipate the little money we may now have, instead of sending it into areas of real need. They are dissipating it throughout the State into areas that don't really need it. That is what we are worried about.

We feel that is why there should be provisions for pass-throughs and also for local government involvement—whether it be the county, the city, or such—as to exactly how they are going to work out this process. We are afraid they may feel that they know how to do it.

Senator **Durenberger**. Just a second.

My point there—and I probably didn't make it clear—is that States haven't much experience with targeting needs. All they have been doing is passing through money for federally targeted needs into a local community. So, they don't have much experience with that.

Our choices are to continue to have us make the targeting decisions; pass it right through the State into those communities; or develop some ability on the part of the States to work with local governments to come up with a way to target needs better than we can under the present system.

I think what I would ask you to say, if you can, is that you don't have any faith in the States doing that; or, that you think there are some changes in the blocking process which would facilitate this capacity on the part of the States.

Diane, do you want to respond to that?

Ms. AHRENS. Yes, Mr. Chairman. First of all, there should be some sort of mandate for an association. We would like that negotiation to be forced at the State level. It would be very nice to have it at the Federal level, as well, particularly in the Federal departments. I think the Department of Agriculture has come up with a 3-percent error rate regulation for food stamps, with absolutely no input—that we know of—from the local jurisdictions administering them. It is an absolutely ridiculous regulation.

In Minnesota, we have a formula that was developed in a legislative process whereby the CSSA money is distributed to counties. I will go back to the mayor's point; it is a very good point. That was a political process. We fought it out with the legislature and with the rural areas. We didn't come off, we felt, as well as we should have. Perhaps some kind of a formula relationship developed at the Federal level, and suggested to the States, would be useful.

We are always going to have problems. My theory is that, given the political situation with the States, the money will flow out to the areas where the needs are not the greatest. I don't know how to get around that, but that is the simple fact of life we have to deal with. I think in Minnesota we had a good process for that, and we just fought it out. I think, because we went through it 2 years ago, we don't want to open it up again. We could end up losers if we were to open that process up again.

Senator DURENBERGER. OK. Thank you.

Mr. MARTINELLI. If you want an answer as to whether we trust the States: A very loud "No." We don't trust the States. Maybe they haven't had the ability in the past to handle this. We just don't trust that they are going to be able to do it properly. That is why we are coming to you and asking you to implement something, somewhere in the law, which gives us a shot at making it work properly.

Senator DURENBERGER. I just want to say in response to that that I don't trust the Federal Government. [Laughter.]

The point of this whole discussion is to find a way in which we can develop the greatest amount of trust wherever we have the greatest access. I am very frustrated about the refugee problem. I am frustrated about a lot of other things. It is not Reaganomics, or Stockmanomics, or anything else.

There have just got to be better ways of doing these things. It isn't as simple as saying the Federal Government is going to quit, that we are going to dump it. We need to find a trustworthy relationship here, so that we aren't just spreading resources around and missing the target.

I thank you very much for your contributions this morning.

[The prepared statement of Ms. Ahrens follows:]

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STATEMENT OF

THE HONORABLE DIANE AHRENS

ELECTED COUNTY COMMISSIONER,

RAMSEY COUNTY, MINNESOTA

ON BEHALF OF

THE NATIONAL ASSOCIATION OF COUNTIES

BEFORE THE

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

REGARDING IMPLEMENTATION

OF BLOCK GRANTS

WASHINGTON, D.C.

MAY 11, 1982

STATEMENT OF THE HONORABLE DIANE AHRENS, ELECTED COUNTY COMMISSIONER, RAMSEY COUNTY, MINNESOTA, ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES, BEFORE THE SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS, COMMITTEE ON GOVERNMENTAL AFFAIRS, UNITED STATES SENATE, REGARDING IMPLEMENTATION OF BLOCK GRANTS, WASHINGTON, D.C., MAY 11, 1982.

CHAIRMAN DURENBERGER, AND DISTINGUISHED MEMBERS OF THIS COMMITTEE, MY NAME IS DIANE AHRENS. I AM AN ELECTED COUNTY COMMISSIONER IN RAMSEY COUNTY, MINNESOTA, AND I SERVE AS A MEMBER OF THE HUMAN SERVICES POLICY STEERING COMMITTEE FOR THE NATIONAL ASSOCIATION OF COUNTIES* (NACo). I AM PLEASED TO APPEAR BEFORE YOU THIS MORNING ON NACo's BEHALF TO PRESENT OUR VIEWS ON THE EFFECTS OF THE NINE MOST RECENT BLOCK GRANTS TO COUNTY GOVERNMENT, IT'S OPERATION AND IT'S CAPACITY TO CONTINUE SERVICES.

AS NACo STATED BEFORE THIS COMMITTEE LAST OCTOBER, COUNTIES SUPPORT WIDER USES OF THE BLOCK GRANT MECHANISM. WE CONTINUE TO SUPPORT EFFORTS TO BALANCE THE BUDGET. BUT WE DO NOT BELIEVE THAT BLOCK GRANTS SHOULD BE USED AS A BUDGET CUTTING TOOL. IN FACT, MR. CHAIRMAN, THE NATIONAL ASSOCIATION OF COUNTIES PASSED A RESOLUTION AT OUR MARCH LEGISLATIVE CONFERENCE WHICH CALLS FOR A MORATORIUM ON ALL FURTHER BUDGET CUTS INCLUDING FISCAL YEAR 1983 PROPOSALS. OUR RESOLUTION URGED A "PACING" OF THE DEVOLUTION PROCESS TO ENSURE A STABLE AND ACCEPTABLE REALIGNMENT OF OUR FEDERAL SYSTEM. ACCORDING TO THE NACo POLICY, SUCH A REALIGNMENT MUST PRESERVE NATIONAL EQUITY IN INCOME MAINTENANCE PROGRAMS.

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* The National Association of Counties is the only national organization representing county government in the United States. Its membership spans the spectrum of urban, suburban, and rural counties which have joined together for the common purpose of strengthening county government to meet the needs of all Americans. By virtue of a county's membership, all its elected and appointed officials become participants in an organization dedicated to the following goals:

- improving county governments;
- serving as the national spokesman for county governments;
- acting as a liaison between the nation's counties and other levels of government; and
- achieving public understanding of the role of counties in the federal system.

EFFECTS OF BLOCK GRANTS ON STATE PROCESSES, LOCAL INVOLVEMENT AND SERVICE DELIVERY

REGARDING BLOCK GRANTS, SENATORS, IT IS EXTREMELY DIFFICULT TO PROVIDE THIS COMMITTEE WITH A CLEAR AND ACCURATE RECORD OF HOW WELL BLOCK GRANTS ARE FARING THROUGHOUT THE COUNTRY. FRANKLY, IT IS JUST TOO EARLY TO ASSESS. AS THE RECENT NATIONAL GOVERNORS' ASSOCIATION REPORT SAYS, "MOST OF (THE GRANTS) WERE COMPROMISED SHARPLY IN THE CONGRESSIONAL PROCESS AND ... THE STATES HAD LITTLE OPPORTUNITY TO PLAN FOR THIS NEW ASSUMPTION OF RESPONSIBILITY. ALL THESE FACTORS HAVE ... REDUCED THE NUMBER OF CHANGES IN THE FIRST FOUR MONTHS." IN ADDITION, BECAUSE OF THE VARIOUS DELAYS CAUSED BY BOTH THE CONGRESSIONAL AND REGULATORY PROCESS STATE LEGISLATURES HAD LITTLE OR NO TIME TO ACT. SOME STATES SIMPLY FAILED TO ASSUME SOME OF THE BLOCK GRANTS.

IT IS OUR BELIEF, SENATORS, THAT THE REAL TEST WILL BEGIN UNDER THE NEXT FISCAL YEAR. WITH MUCH TIGHTER BUDGETS, FAR FEWER FEDERAL DOLLARS, STATE ASSUMPTION OF NEW RESPONSIBILITIES, AND A YEAR OF "PLANNING TIME," THE FULL EFFECTS OF THE BLOCK GRANT EXPERINCE WILL BE BETTER KNOWN. IN THE MEANTIME, HOWEVER, WE CAN PROVIDE YOU WITH A FEW EXAMPLES OF OUR COUNTIES' ACTIVITIES. WE PREMISE THE REMARKS, HOWEVER, WITH THE CAVEAT THAT NOT ALL STATES OPERATE THE SAME. SOME STATES WILL DESIGN EXCELLENT SYSTEMS AND PROVIDE AMPLE OPPORTUNITIES FOR LOCAL GOVERNMENT TO BE INVOLVED IN THE PLANNING PROCESS. ON THE OTHER HAND, SOME STATES WILL SIMPLY PROVIDE LOCAL GOVERNMENT WITH A PLAN, FAIT ACCOMPLI. ANY PROCESS FOR CONSULTATION IS FOR SHOW ONLY, A RUBBER STAMP TO THE STATES' PREDETERMINED GOALS.

HUMAN SERVICES AND HEALTH
BLOCK GRANTS

SENATORS, IT HAS BEEN MY EXPERIENCE THAT THE AMOUNT OF REAL INTERGOVERNMENTAL COOPERATION INVOLVING COUNTIES IN MY STATE, HAS BEEN LARGELY "WINDOW DRESSING." WHEN DONE, IT IS MORE OFTEN THAN NOT TO SUIT THE STATE'S HIDDEN OR NOT SO HIDDEN AGENDA. THIS BECOMES MORE UNDERSTANDABLE WHEN ONE CONSIDERS THAT COUNTIES ARE VIEWED AS AN ADMINISTRATIVE ARM OF STATE GOVERNMENT - PARTICULARLY THE STATE LEGISLATURE. ONLY 500 COUNTIES, NATIONWIDE, HAVE HOME RULE. VIEWED BY STATE GOVERNMENT AS THAT UNIT WHICH FUNCTIONS TO DO ITS BIDDING, COUNTIES ARE MOST OFTEN IN THE POSITION OF "REACTING."

IN MINNESOTA, WE DO HAVE A HIGHLY DEVELOPED ASSOCIATION. WE COOPERATE BETWEEN AND AMONG THE SEVEN METRO COUNTIES THROUGH A JOINT POWERS AGREEMENT. THE METRO INTER COUNTY ASSOCIATION. UNDER THAT UMBRELLA, SOLID WASTE, 911, RAIL AUTHORITY, AND VARIOUS ENVIRONMENTAL ISSUES ARE TACKLED. THIS ASSOCIATION HIRES LOBBYISTS TO ADVOCATE ON OUR BEHALF AT THE STATE LEGISLATURE.

WITH RESPECT TO BLOCK GRANTS, WE IN MINNESOTA HAVE LABORED UNDER A SOCIAL SERVICES BLOCK GRANT FOR OVER TWO YEARS. OUR LEGISLATURE PASSED THE COMMUNITY SOCIAL SERVICES ACT WHICH SIMPLY TOOK THE TITLE XX MONEY AND ADDED TO IT THE STATE MONEY THAT HAD FORMERLY BEEN GIVEN TO COUNTIES ON A CATEGORICAL BASIS FOR SOCIAL SERVICES.

THIS ONE POT WAS THEN ALLOCATED ON A FORMULA BASIS AS A BLOCK GRANT TO COUNTIES FOR SOCIAL SERVICES ACCORDING TO A COUNTY PLAN APPROVED BY THE DEPARTMENT OF PUBLIC WELFARE. JUST WHAT SOCIAL SERVICES WERE TO BE PROVIDED WAS LEFT LARGELY TO THE COUNTIES' DISCRETION. UNDER THIS APPROACH MOST COUNTIES HAD FEWER DOLLARS THAN BEFORE. BUT THEN THE STATE LESSENED

THE DOLLARS EVEN FURTHER THROUGH A LEVY LIMITATION ON HUMAN SERVICE BUDGETS. OUR TITLE XX PROGRAM WAS CUT. TO PAY OUR INCREASING ENTITLEMENT BILLS, THE COUNTY CUT SOCIAL SERVICE PROGRAMS BY ONE-THIRD. WE CUT OR ELIMINATED NINETY THREE PURCHASE OF SERVICE CONTRACTS, CUT SERVICES TO THE MENTALLY RETARDED, MENTALLY ILL AND CHEMICALLY DEPENDANT BY THIRTY-SIX PERCENT. WE ELIMINATED ALL OUR SUPPORTIVE SERVICES FOR DAY CARE AND CUT HOMEMAKER/CHORE SERVICES BY THIRTY-FIVE PERCENT.

HOWEVER, PRIOR TO THE FUNDING CUTBACKS, THIS BLOCK GRANT APPROACH MIGHT HAVE WORKED RATHER WELL OVER THE LONG HAUL. IT WAS A GOOD IDEA. ALTHOUGH IT WAS ORIGINALLY THOUGHT BY MANY TO BE DEVISED TO GET THE VARIOUS ADVOCACY GROUPS OFF THE BACKS OF STATE LEGISLATORS AND ON TO COUNTY COMMISSIONERS, IT CERTAINLY GAVE COUNTIES A GREAT DEAL MORE CONTROL OVER IMPORTANT DECISIONS.

DECISIONS TO CUT BACK ARE CERTAINLY NOT EASY, SENATORS, BUT WE DEVELOPED A SOUND SYSTEM WHICH INVOLVED BOTH CITIZENS AND STAFF. WE DESIGNED A CRITERIA OF NEED AND POINTS SYSTEM. PARTICIPANTS THEN ALLOTTED POINTS TO EACH PROGRAM TO RANK ITS IMPORTANCE. IT WAS A THOROUGH PROCESS. IT SHOULD SERVE TO ILLUSTRATE WHY THE BLOCK GRANT APPROACH FOR ENTITLEMENT PROGRAMS WITH REDUCED FUNDING IS SO ILL-ADVISED. WE HAVE ATTACHED A COPY OF OUR RANKING SYSTEM FOR THE RECORD.

RAMSEY COUNTY HAS REQUESTED THAT THE STATE USE THIS FORMULA FOR DISTRIBUTING ANY OTHER "BLOCK GRANTS" THAT THE FEDERAL GOVERNMENT MAY ENACT. YOU MIGHT SAY IN MINNESOTA WE ALREADY HAVE IN PLACE STATE-WIDE, A STRUCTURE THAT BLOCK GRANTS CAN "PLUG INTO."

BECAUSE THE STATE HAS NOT TAMPERED WITH THE SYSTEM ALREADY IN PLACE, THE EFFECT OF THE FEDERAL BLOCK GRANTS IN MINNESOTA HAVE NOT YET BEEN FULLY DETERMINED.

IN CALIFORNIA, THE EXPERIENCE IS QUITE DIFFERENT. THE STATE LEGISLATURE HAS PERMANENT PROVISION FOR ONLY THE SOCIAL SERVICES BLOCK GRANT AND HAS OBTAINED ONLY A TEMPORARY PROVISION FOR THE OTHER BLOCK GRANTS. THE TEMPORARY PROVISION REQUIRES ALL OTHER BLOCK GRANT FUNDING AND REDUCTIONS BE PASSED THROUGH ON A PRO RATA BASIS TO ALL CURRENT PROVIDERS. IT ALSO ESTABLISHED A TASK FORCE WITH ONLY TOKEN COUNTY REPRESENTATION TO MAKE RECOMMENDATIONS REGARDING THE DECISION-MAKING RESPONSIBILITY, COMMUNITY INVOLVEMENT AND METHODS OF ALLOCATING BLOCK GRANTS.

MANY STATES HAVE DEVELOPED COMMISSION OR ADVISORY COUNCILS. THE TOTAL NUMBER, HOWEVER, IS MISLEADING IN THAT NOT ALL ADVISORY BODIES ARE TRULY ADVISORY. SOME HAVE BEEN CREATED BECAUSE OF THE MANDATED REQUIREMENT UNDER THE CDBG BLOCK GRANT AND NOT NECESSARILY BECAUSE OF AN INTENSE INTEREST ON BEHALF OF ALL STATES TO CONSULT AND WORK WITH LOCAL GOVERNMENTS IN THE PLANNING PROCESSES TO DISTRIBUTE BLOCK GRANT DOLLARS.

COMMUNITY DEVELOPMENT

AS WITH THE HUMAN SERVICE AREA, THE STATE EXPERIENCE UNDER THE "SMALL CITIES" CDBG BLOCK GRANT IS ALSO MIXED. SOME STATES, SUCH AS NEVADA, HAVE DONE AN OUTSTANDING JOB DESPITE THE ADMINISTRATIVE PROBLEMS TO HONESTLY INVOLVE LOCAL GOVERNMENTS IN THE PLANNING PROCESS. ON THE OTHER HAND, SOME STATES SUCH AS UTAH, HAVE SUBSTANTIALLY LIMITED LOCAL GOVERNMENT INPUT. TWO STATES HAVE NOT AND DO NOT PLAN TO TAKE OVER THE PROGRAM -- COLORADO AND CALIFORNIA. COLOARDO HAS BEEN HESITANT BECAUSE IT DOES NOT WANT TO ASSUME THE PROGRAM SHOULD FEDERAL FUNDING

CEASE AND CLAIFORNIA HAS NOT BEEN ABLE TO SUCCESFULLY RESOLVE AN INTERNAL DISPUTE OVER WHICH STATE AGENCY WOULD BE APPROPRIATE TO ADMINISTER THE PROGRAM. IN ALL CASES, HOWEVER, THE STATE-ADMINISTERED "SMALL CITIES" COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM HAS BEEN SEVERELY HAMPERED IN IMPLEMENTATION DUE TO AN INORDINATELY LONG PERIOD OF TIME IN FINALIZING REGULATIONS. THIS DELAY HAS RESULTED IN CONSIDERABLE UNCERTAINTY AND CONFUSION ON THE PART OF LOCAL GOVERNMENTS AND THE STATES WHICH MAY HAMPER SUCCESSFUL IMPLEMENTATION OF THE NEW PROGRAM.

THE DELAY IN ISSUING FINAL REGULATIONS -- FROM NOVEMBER 1981 TO APRIL 1982 -- RESULTED FROM A DISPUTE BETWEEN THE ADMINISTRATION AND THE CONGRESSIONAL BANKING COMMITTEES OVER FUNDAMENTAL PHILOSOPHICAL ISSUES PERTAINING TO THE PRINCIPLE PURPOSES OF THE ACT. THE ADMINISTRATION TOOK THE VIEW THAT "MAXIMUM FEASIBLE DEFERENCE" BE GIVEN TO THE STATES TO IDENTIFY TARGET POPULATION, DEVELOP REPORTING REQUIREMENTS AND PERFORMANCE REPORTS AND APPLICABILITY OF OTHER FEDERAL LAWS. WHILE SOME ACCOMMODATION OF CONGRESSIONAL CONCERNS WAS MADE BY THE ADMINISTRATION, IT REMAINS UNSATISFACTORY TO THE HOUSE BANKING COMMITTEE AND ITS VERSION OF THE ANNUAL HOUSING AUTHORIZATION LEGISLATION CONTAINS A RESTATEMENT OF CONGRESSIONAL INTENT THAT STATES MUST SERVE LOW AND MODERATE INCOME PERSONS AND OPERATE UNDER FAIRLY SPECIFIC PERFORMANCE STANDARDS. WE THINK THESE CHANGES ARE ESSENTIAL

WE ARE HOPEFUL THAT FURTHER DELAYS DO NOT OCCUR IN IMPLEMENTATION OF THIS PROGRAM SO THAT FUNDING CAN BE QUICKLY MADE AVAILABLE TO MEET THE PRESSING COMMUNITY DEVELOPMENT NEEDS OF THE NATION'S SMALLER COUNTIES AND CITIES.

BUDGET CUTS

MR. CHAIRMAN, THOUGH WE REALIZE THIS HEARING WAS NOT CALLED TO DISCUSS THE FISCAL YEAR 1983 BUDGET, NEVERTHELESS, WE IN COUNTY GOVERNMENT BELIEVE THAT THE BUDGET IS TOO INTRICATELY INTERTWINED WITH THE BLOCK GRANT AND NEW FEDERALISM ISSUES. SOME DISCUSSION IS NECESSARY. NACo CONTINUES TO ENDORSE THE GOAL OF A BALANCED BUDGET, HOWEVER, WE BELIEVE A BALANCED BUDGET SHOULD NOT BE ACHIEVED AT THE EXPENSE OF DOMESTIC PROGRAMS IN FISCAL 1983. LAST YEAR, COUNTIES SUSTAINED OVER A 15% REDUCTION IN FEDERAL FUNDING. THE EFFORTS THAT COUNTY GOVERNMENTS MADE TO MAINTAIN SERVICE LEVELS DESPITE FUNDING CUTBACKS WERE TREMENDOUS. WHILE THE FULL IMPACT OF LAST YEAR'S CUTS HAVE NOT BEEN TOTALLY REALIZED, THERE IS NOW A PERVASIVE FEELING AMONG COUNTY GOVERNMENTS THAT ALL OF THE "FAT" HAS BEEN ELIMINATED. LAST YEAR'S CUTS FORCED MANY COUNTIES TO REDUCE EMPLOYMENT, CUT BACK ON SERVICE HOURS AND SERVICES SUCH AS DAY-CARE ASSISTANCE AND POSTPONE BADLY NEEDED INVESTMENT IN INFRASTRUCTURE REPAIRS. MANY COUNTIES HAVE HAD TO RAISE PROPERTY OR SALES TAXES, A POLICY VIEWED UNFAVORABLY BY CITIZENS WHO RECEIVE, IN RETURN, A CUTBACK RATHER THAN AN INCREASE IN SERVICES. COUNTIES ARE FACING ADDITIONAL BURDENS AS THEY STRIVE TO SUPPORT THE NEEDY WHO ARE NOW INELIGIBLE FOR FEDERAL AFDC AND FOOD STAMPS. MANY COUNTIES FORESEE DIFFICULTY IN MAINTAINING THE FISCAL VIABILITY OF COUNTY HOSPITALS WHICH PROVIDE SERVICES TO MANY POOR PEOPLE WHO ARE INELIGIBLE FOR MEDICARE AND MEDICAID. FURTHER REDUCTIONS IN REVENUES WOULD SERIOUSLY AND NEGATIVELY IMPACT ON THE ABILITY OF COUNTIES TO PROVIDE BASIC AND VITAL SERVICES TO CITIZENS.

WHILE WE CONTINUE TO SUPPORT BLOCK GRANTS AND TRANSFER TO THE STATES OF MANY CATEGORICAL PROGRAMS UNDER THE PRESIDENT'S PROPOSED TURNBACK, WE

MUST INSIST ON A MORATORIUM OF FURTHER REDUCTIONS IN THE FEDERAL PROGRAMS THAT AFFECT COUNTIES UNTIL WE CAN DETERMINE WHAT THE IMPACT OF THE CUTS WILL BE ON OUR CONSTITUENTS. WE HAVE NOT FOUND THAT COUNTIES ARE ABLE TO MAKE UP THE LOST FEDERAL FUNDS. ALTHOUGH MANY SERVICES ARE BEING PRESERVED BY JUGGLING FUNDS AND PROGRAMS, IN MANY CASES. HOWEVER, THE SERVICES ARE JUST DISAPPEARING.

WE WILL CONTINUE TO SUPPORT THE CONSOLIDATION OF NARROW CATEGORICAL PROGRAMS INTO BLOCK GRANTS THAT INSURE THE PARTICIPATION OF COUNTY ELECTED OFFICIALS IN THE FUNDING AND ALLOCATIONS DECISION PROCESS, PROVIDED THAT THE FEDERAL FUNDING LEVEL OF THE BLOCK GRANTS IS NOT SUBSTANTIALLY REDUCED. SPECIFICALLY, WE OPPOSE FURTHER REDUCTIONS IN THE SOCIAL SERVICES BLOCK GRANT, THE COMMUNITY SERVICES BLOCK GRANT, AND THE LOW INCOME ENERGY ASSISTANCE BLOCK GRANT. FOR THE SOCIAL SERVICES BLOCK GRANT (TITLE XX), NACo SUPPORTS PROVISIONS OF H.R. 5791, INTRODUCED BY MR. FORD OF TENNESSEE, WHICH WOULD SET 1983 SPENDING AT $2.6 BILLION, AND INCREASE TO $3.0 BILLION BY 1985, WHICH IS STILL LESS THAN THE 1983 LEVEL WOULD HAVE BEEN PRIOR TO THE RECONCILIATION ACT LAST YEAR.

THE PROPOSED CHILD WELFARE BLOCK GRANT IS ACCEPTABLE, AT 1982 FUNDING LEVELS FOR THE PROGRAMS CONTAINED WITHIN IT, AND PROVIDED THAT FUNDS ARE APPROPRIATED SEPARATELY FOR FOSTER CARE MAINTENANCE PAYMENTS, AS PROVIDED IN THE ENTITLEMENT LANGUAGE ESTABLISHED LAST YEAR.

BOILER PLATE LANGUAGE

SENATORS, THE NACo POLICY PRESENTED HERE LAST OCTOBER HAS NOT CHANGED. WE SUPPORTED THEN, AND CONTINUE TO SUPPORT, THE BOILERPLATE LANGUAGE DEVELOPED BY CHAIRMAN DURENBERGER. WE HIGHLY SUPPORT LANGUAGE WHICH CALLS FOR THE STATE'S CONSULTATION WITH LOCAL GOVERNMENTS IN PREPARING THE STATE'S PLAN TO EXPEND BLOCK GRANT DOLLARS.

PASS-THROUGH PROVISION

AS PREVIOUSLY REQUESTED, NACo CONTINUES TO SUPPORT A PASS-THROUGH PROVISION FOR LOCAL GOVERNMENTS. WE RECOMMEND FOR THE COMMITTEE'S CONSIDERATION THE FOLLOWING LANGUAGE:

° FOR ENTITLEMENT AND CATEGORICAL PROGRAMS THAT ARE WHOLLY LOCALLY FUN, A 100% PASS-THROUGH SHALL BE REQUIRED. THIS PASS-THROUGH SHALL BE FULL, DIRECT AND WITHOUT ENCUMBRANCE.

° FOR BLOCK GRANT PROGRAMS, SUCH AS CETA AND CDBG, WHERE FUNDING IS PRESENTLY SPLIT (i.e., ENTITLEMENT, BALANCE OF STATE OR NON-ENTITLEMENT) OR PASSED THROUGH BY THE STATES TO SOME DEGREE, THE DIRECT FEDERAL-LOCAL ENTITLEMENT FUNDING ARRANGEMENT WOULD BE MAINTAINED. THE BALANCE DISTRIBUTED TO THE STATES WOULD THEN BE PASS THROUGH ON THE BASIS OF A PERCENTAGE THAT WAS AVAILABLE TO LOCALITIES AS THE AVERAGE OF FISCAL YEARS 1981 AND 1982 LEVELS IN THAT PARTICULAR PROGRAM.

REPORTING REQUIREMENTS

SENATORS, NACo RECOMMENDS AMENDING THE OMNIBUS RECONCILIATION ACT OF 1981 UNDER "ACCESS TO RECORDS BY THE COMPTROLLER GENERAL" TO INCLUDE A NEW SECTION DEALING WITH REPORTING REQUIREMENTS. THE NEW SECTION WOULD REQUIRE UNIFORM REPORTING OF DATA ON SPENDING BY THE STATES. CURRENTLY, STATES ARE REQUIRED TO SUBMIT DATA IN A FORMAT TO BE SPECIFIED BY THE SECRETARY. UNFORTUNATELY, NO SPECIFIC FORMAT HAS BEEN ESTABLISHED. NACo BELIEVES ACCOUNTABILITY TO CONGRESS ON THE SPENDING OF FEDERAL DOLLARS CAN ONLY BE ASSURED IF REPORTING AMONG THE STATES IS CARRIED OUT ON A UNIFORM BASIS.

NACo POLICY ON BLOCK GRANTS

AS WE PROVIDED FOR THE COMMITTEE LAST OCTOBER, THE NATIONAL ASSOCIATION OF COUNTIES WISHES TO REPEAT OUR POLICY ON BLOCK GRANTS. OUR POLICY

GUIDELINES SPECIFICALLY CALL FOR THE FOLLOWING PROVISIONS IN ANY BLOCK GRANT PROGRAMS:

- FIRST, A BLOCK GRANT TO CONSOLIDATE PROGRAMS MUST BE ACCOMPANIED BY AN ABSOLUTE REDUCTION IN FEDERAL MANDATES AND REGULATIONS.

- THERE MUST BE A REASONABLE TRANSITION PERIOD TO ALLOW STATES AND COUNTIES TO MAKE THE NECESSARY LEGAL ADJUSTMENTS AND TO CONSOLIDATE PROGRAMS, SERVICES, AND FISCAL RESOURCES, BEFORE FUNDING IS REDUCED. FOR MOST PROGRAMS, A MINIMUM PERIOD OF TWELVE TO TWENTY-FOUR MONTHS IS NEEDED FOR ORDERLY TRANSITION. THE DIFFERING BUDGET CYCLES AND STATE LEGISLATIVE SESSIONS MAKE IMMEDIATE ADJUSTMENT TO NEW BLOCK GRANTS IMPOSSIBLE. IN MOST CASES, COUNTIES OPERATING PROGRAMS MUST WAIT FOR STATE ENABLING LEGISLATION.

- A BLOCK GRANT OR OTHER SPENDING REDUCTION CANNOT SERVE MERELY TO SHIFT COSTS FROM THE FEDERAL TREASURY TO STATE AND LOCAL TAXPAYERS. NACo WILL VIGOROUSLY OPPOSE ANY SUCH SHIFTING.

- FEDERAL BLOCK GRANT FUNDS SHOULD BE ALLOCATED DIRECTLY TO GENERAL PURPOSE LOCAL GOVERNMENTS WHERE AN EXISTING SERVICE DELIVERY SYSTEM IS IN PLACE: AND

- THERE MUST BE PROVISIONS TO ASSURE PASS-THROUGH OF FUNDS TO COUNTIES THAT OPERATE THE PROGRAMS, IN ORDER TO PRESERVE THE SAFETY NET OF LIFE-SUSTAINING SERVICES THAT COUNTIES MUST OPERATE. TO FURTHER ASSURE THAT BLOCK GRANT FUNDS ARE AVAILABLE FOR LOCAL SERVICE DELIVERY, THERE SHOULD BE A CAP ON THE AMOUNT THE STATES CAN RETAIN FOR ADMINISTRATIVE COSTS, SUCH AS THE TEN PERCENT LIMIT PROVIDED IN THE SENATE PASSED HEALTH BLOCK GRANTS.

- FURTHER, NACo POLICY SPECIFIES THAT THERE SHOULD BE NO MATCHING REQUIREMENTS, MAINTENANCE OF EFFORT, OR EARMARKING OF FUNDS WITHIN BLOCK GRANTS. MOST OF THE BLOCK GRANT PROPOSALS IN THE RECONCILIATION BILLS VIOLATE SOME OR ALL OF THESE PRINCIPLES.

- FINALLY, NACo OPPOSES BLOCK GRANTS FOR ENTITLEMENT PROGRAMS SUCH AS AFDC, FOOD STAMPS, AND MEDICAID, AND BELIEVES THAT THE FEDERAL GOVERNMENT SHOULD CONTINUE TO MAINTAIN PRIMARY RESPONSIBILITY FOR THE PROBLEMS OF INCOME MAINTENANCE, WHICH ARE MORE NATIONAL IN CHARACTER.

CONCLUSION

IN CONCLUSION, CHAIRMAN DURENBERGER, NACo SUPPORTS FEDERAL EFFORTS TO INCREASE THE BLOCK GRANT MECHANISM. HOWEVER, AS OUR TESTIMONY HIGHLIGHTS, WE MUST KEEP IN MIND THE FOLLOWING FACTORS AS WE MOVE TOWARD THIS END:

- THE VARIOUS DELAYS IN PASSING BLOCK GRANTS, DEVELOPING REGULATIONS, COUPLED WITH THE LIMITED STATE PLANNING TIME AND THE STATE LEGISLATURE'S ADJOURNMENTS, HAS NOT ALLOWED FOR A TRUE TESTING OF THE BLOCK GRANT EXPERIENCE. THE REAL TEST WILL BEGIN UNDER FISCAL YEAR 1983. COUNTIES WILL HAVE A MUCH BETTER FEELING OF HOW WELL THIS PROCESS WORKS AFTER THE '83 BUDGET HAS HAD TIME TO FILTER THROUGH THE SYSTEM. THIS COMMITTEE, MR. CHAIRMAN, SHOULD CONSIDER HOLDING HEARINGS BY MID OR LATE 1983.

- THE CUMULATIVE IMPACT OF BLOCK GRANTS, STATE GOVERNMENT FISCAL DISTRESS, FEDERAL BUDGET CUTS, AND POSSIBLY MORE STATE/LOCAL GOVERNMENT RESPONSIBILITIES UNDER NEW FEDERALISM, HAS JUST BEGUN TO IMPACT LOCAL GOVERNMENTS. WE NOW SEE THE RESURGENCE OF 1930 SOUP LINES IN NUMBERS

AND IN AREAS NOT KNOWN BEFORE. FISCAL YEAR 1983 WILL MOST LIKELY EXACERBATE THIS PROBLEM.

- THE CONSULTATION PROCESSES ESTABLISHED UNDER THE STATES NEED MORE WORK. SOME STATES MAY NEED ADDITIONAL INCENTIVES TO PROVIDE MEANINGFUL OPPORTUNITIES TO SEEK LOCAL INVOLVEMENT IN THE ACTUAL PLANNING STAGES FOR FUND EXPENDITURE.

- THE PASS THROUGH OF FUNDS CONTINUES TO BE A PRESSING CONCERN. BLOCK GRANT LANGUAGE SHOULD AND MUST RECOGNIZE THE ROLE GOVERNMENTS PLAY AS THE PRINCIPLE SERVICE PROVIDERS AND PROVIDE FOR THE MANDATORY PASS-THROUGH OF ADEQUATE RESOURCES.

- THE CONGRESS MUST RECOGNIZE THE INTENSE FISCAL STRESS ON OUR INTERGOVERNMENTAL SYSTEM AND AGREE TO A MORATORIUM ON ANY FURTHER BUDGET CUTS FOR THOSE DOMESTIC PROGRAMS FUNDED THROUGH STATE AND LOCAL GOVERNMENTS UNTIL THE SYSTEM HAS HAD TIME TO STABILIZE AND ACCESS ITS RESOURCES.

SENATORS, THE NATIONAL ASSOCIATION OF COUNTIES APPRECIATES THIS OPPORTUNITY TO APPEAR BEFORE YOU THIS MORNING. WE HOPE AND URGE YOU TO CONTINUE THIS OVERSIGHT ON BLOCK GRANTS. WE ENCOURAGE THIS COMMITTEE TO TAKE A CLOSE LOOK AT THIS ISSUE WHEN WE ARE WELL INTO THE FY 1983 BUDGET, AND URGE YOUR SUPPORT TO APPROPRIATE FUNDING FOR THE PRESENT BLOCK GRANT PROGRAMS AT THE FY 1982 BUDGET LEVELS. WE WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE REGARDING THIS STATEMENT, AND LOOK FORWARD TO CONTINUING TO WORK WITH YOU IN OUR COMMON INTEREST TO BALANCE THE BUDGET AND RESPONSIBLY IMPROVE OUR INTERGOVERNMENTAL SYSTEM.

THANK YOU.

Senator DURENBERGER. I would like to introduce our next witness who is Charles A. Bowsher, Comptroller General for the U.S. General Accounting Office. He is used to providing information to us. Prior to an assignment at the General Accounting Office, he was a partner in the international accounting firm of Arthur Andersen where he directed the government service program in Washington, D.C.

Mr. Bowsher, we welcome you. Your full statement will be made part of the record. You can do whatever you please, as long as you stay within 7 minutes.

TESTIMONY OF CHARLES A. BOWSHER, COMPTROLLER GENERAL, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY HARRY S. HAVENS, ASSISTANT COMPTROLLER GENERAL, AND GENE L. DODARO, SUPERVISORY GAO EVALUATOR

Mr. BOWSHER. Thank you, Mr. Chairman.

I welcome the opportunity to appear this morning. I would like to submit my detailed statement for the record and just highlight our observations here.

Shortly after the block grant legislation became effective, we began monitoring the transition process. We visited 13 States across the country and talked to over 600 State, local, and Federal officials. The State transition to block grant administration is progressing as well as could be expected, considering the short time frame for proceeding with implementation, the funding reductions accompanying the programs and the uncertainty surrounding the block grant appropriations.

Because implementation is still unfolding, a complete picture is not yet available, but certain facts have emerged in the States we have visited. One important factor in the transition to most block grants was a State's considerable involvement in the predecessor programs. States had already received the vast majority of funds from these programs. To the extent this involvement existed, administrative frameworks were in place. Where State experience was not as extensive, more adjustments were made as necessary.

During early implementation, a major concern was coping with the reduced funding levels. The scope of adjustment to the three health block grants and the community services block grants, however, was limited, in part by legislative provisions designed to insure continued funding for established services and grantees. Moreover, continued Federal outlays from awards made under the superseded categorical programs were providing States additional time and resources to adjust to the reduced funding levels.

In contrast, more changes were made immediately in block grants which had no ongoing categorical outlays and fewer legislative restrictions. For example, to cope with the funding reductions in the social services block grant, States more frequently altered previously established funding patterns and employed options to transfer funds among the block grants.

Although the scope of the block grant funding changes varied, officials in all 13 States we visited complained that planning was complicated by the uncertainty of block grant appropriations. Also, officials turned to non-Federal sources—such as awards, liaison officers, public interest groups, professional organizations, and grantees—to obtain data for management.

While initially concentrating on obtaining information to handle budget reductions, certain States have reported, or contemplate making, changes to take advantage of reduced Federal requirements. It was too early to make any definitive judgments on efficiencies emanating from the block grants.

The block grants placed great reliance on State oversight processes. In this regard, State legislatures are expected to become increasingly involved in block grant decisions. In 9 of the 13 States we visited, the legislatures had enacted measures influencing early block grant implementation and enhancing their oversight of future block grant decisions. Additionally, 11 of the 13 States we visited held hearings for at least one block grant. The views of citizens and local entities were obtained through a variety of ways. A more definitive picture will emerge next year because the public hearings requirements will be in effect and more time will be available to obtain comments on the block grant program.

Our primary vehicle for assuring accountability and assessing compliance with Federal law is the State audits of block grant funds. Audit strategies are being developed. Questions have arisen concerning such matters as the scope of audit coverage required and the reimbursement of audit costs. To help address these concerns, the Office of Management and Budget, last month, provided States with a paper describing a framework for audits of block grants.

We at the GAO believe that a standardized audit provision might be desirable for future block grants. We are in the process of developing such a provision which covers both State and local government audit responsibilities. We will make this legislative language available to the subcommittee when it is completed. We will be happy, at that time, to discuss how your proposed Block Grant Management Act could be modified.

Because efforts to refine block grant audit legislation coincide with actions to develop the single audit concept, there is a need to promote effective implementation of this concept. I plan to provide leadership by forming an audit policy advisory committee consisting of representatives from both the public and the private sector audit and user community.

This committee can focus on problems such as developing a practical and effective quality review process. We suggest that the provisions relating to a quality review process be deleted from your Uniform Block Grant Management Act pending deliberations by the audit policy advisory committee. We will keep you advised of our progress and inform you promptly when we can offer definitive recommendations.

I would like to turn now to certain other block grant developments.

The act calls for the Secretary of Health and Human Services to consult with GAO and the States concerning the form and content of the health block grant annual reports. The Department has decided it will not prescribe the standard form but will simply require States to develop annual reports that meet legislative requirements. The States have been working together to provide consistent information among the States, but it is too early to tell if this approach will produce sufficient information needed for national policymaking.

There are a number of crosscutting national policy requirements which were enacted through legislation other than the Reconciliation Act. These requirements apply to a range of activities receiving Federal financial assistance. By and large, the Reconciliation Act is silent on the crosscutting requirements other than civil rights, and so are agency regulations.

Given the short time available to implement the block grants, States are just now considering these issues. Some State officials are uncertain as to the applicability of these requirements and believe that Federal advice would be helpful. We believe the administration should clarify whether these requirements apply to the block grants. If the administration considers an applicable requirement to be inappropriate, then it should propose remedial legislation to the Congress.

For the next few years, I plan to place a special emphasis on various aspects of the block grant program. As our work progresses, we will keep this subcommittee fully informed. My colleagues and I would be pleased to respond to any questions, Mr. Chairman.

Senator **Durenberger**. On that last point, are you familiar with the OMB Circular A–102? That is the basic management circular for the Federal grant.

Mr. **Bowsher**. Yes.

Senator **Durenberger**. It seems to me that the administration has already made a decision: OMB has exempted block grants from the provisions of A–102. A–102 is one of the crosscutting requirements that you mentioned in your testimony.

It also seems that States have been put in a rather difficult position. The Congress has said that these provisions apply to every recipient of Federal assistance, but OMB says that they don't apply to block grants. We have 63 of these on the books covering everything from civil rights to environmental issues. I think this is a major issue that needs to be resolved quickly.

I wonder if GAO has a view on how we ought to go about making the decision—they either apply or they don't; or some of the 60-plus ought to apply to certain blocks and not others.

Do you have some advice for us on that?

Mr. **Bowsher**. Mr. Chairman, we agree with you about the confusion. The fact is that people are out there looking for guidance. They had not focused on these too much when we were doing our work. However, we can tell that it was beginning to be a worry. We think it will be.

We believe the administration should look at these individually, and come up with decisions. Then they should come to the Congress if they do not believe that the requirements should apply, and ask for remedial language.

Otherwise, we think some guidance, similar to that issued on the audit requirements, should be put out. I would think OMB should be the focal point.

Senator **Durenberger**. Let me ask you about the audit legislation which you mentioned.

Can you share with us what kinds of changes you are going to recommend as to the audit requirements for the block grants?

Mr. **Bowsher**. I am not sure what we will be recommending. I can share with you our concerns in what we are looking at in the single-audit concept and the concept of trying to get auditing done on an overall basis rather than on a grant-by-grant basis.

The GAO did some studies a few years back and found that this grant-by-grant auditing was not getting the job done. A lot of individual grants were not being audited, and some of the individual grants were being over audited. In other words, the States were auditing; the Federal Government was auditing; and sometimes the CPAs were auditing.

What we think would be better is that the States would have an overall single audit done of either the entity—which is kind of the way I prefer it—or the overall block grant or some of the major departments. Then any additional work—such as the detailed compliance or the program effectiveness and things like that—would be done, relying upon that single audit work which had already been done. The State auditors can do that, or a State can have a CPA firm do it—whichever way they would prefer, just as long as they have an independent audit performed.

What we are running into are questions on definitions, who should pay for the audit, and things like that. That is why I would like to bring together—and I am planning to do it in early June—a group of people from the States and from the private sector and see if we can't get some good advice from them. Then we can come back to you with recommendations.

Senator DURENBERGER. You recently testified before the House on grant reform. If I read your testimony correctly, you reversed the longstanding GAO position and now oppose the audit title in the grant reform bill. I think a good legislative history would show that GAO wrote most of the provisions in that title. I would be curious to know why you oppose it now.

Mr. BOWSHER. We opposed the legislation at this time just because we don't think we have enough of the facts and enough reading from the field, you might say. We might later subscribe to those features in that.

Senator DURENBERGER. So you are available to returning to tradition? Maybe?

Mr. BOWSHER. Maybe. That is right.

Senator DURENBERGER. Thank you very much for your testimony. I appreciate your being here today.

Mr. BOWSHER. Thank you, very much, Mr. Chairman.

[The prepared statement of Mr. Bowsher follows:]

PREPARED STATEMENT OF CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES

I welcome the opportunity to appear this morning to discuss our observations on block grant implementation.

The Omnibus Budget Reconciliation Act of 1981 as igned States primary administrative responsibility for nine block grants, six of which became effective on October 1, 1981. Shortly thereafter, we began a study to monitor the transition process and early implementation of these grants.

We visited 13 States across the country and talked to over 600 State and local officials as well as representatives of the cognizant Federal departments. The 13 States, which are listed in the attachment to my statement, account for over 45 percent of the funds and an equivalent proportion of the nation's population.

The State transition to block grant administration is proceeding as well as could be expected considering the short timeframe between passage of the act on August 13 and implementation on October 1, the funding reductions accompanying the programs, and the uncertainties surrounding fiscal year 1982 block grant appropriations. Because block grant implementation is still unfolding, a complete picture is not yet available, but certain trends have emerged in the 13 States we visited.

PRIOR STATE INVOLVEMENT HELPED EASE TRANSITION

One important factor easing the initial transition to most of the block grants was the States' considerable involvement in the predecessor programs. States already received the vast majority of funds from these programs and had various ties with program recipients. To the extent this involvement existed, administrative frameworks and institutional knowledge were in place.

For example, States were the exclusive recipients and were heavily involved in administering the programs preceding the Social Services and Low Income Home Energy Assistance block grants. Similarly, to varying degrees, States were involved with the categorical programs which formed the Maternal and Child Health Services; Preventive Health and Health Services; and Alcohol, Drug Abuse and Mental Health Services block grants, through direct program administration, developing comprehensive plans, and contracting for State funded programs with some of the same grantees. Because of States' previous involvement, few major organizational or administrative realignments were needed to accommodate the transition to these block grants.

Where State experience was not as extensive, more adjustments were made. For example, programs merged into the Community Services block grant primarily were funded directly by the Federal Government to Community Action agencies. Although States had some program knowledge, those accepting the block grant generally have had to develop or expand an administrative framework. Such actions include acquiring personnel and developing monitoring and reporting systems. Also, to provide more time for making necessary adjustments, 5 of the 13 States we visited deferred assuming responsibility for this program.

The three other block grants--Small Cities Community Development, Primary Care, and Education--were not in effect on March 1, 1982, when we completed our field work. States were determining what adjustments will be needed to implement these grants and considering whether to assume the optional Small Cities and Primary Care grants. A number of States have expressed concern over accepting the Primary Care block grant because it contains no allowance for administrative costs, requires funding of existing community health centers, and includes a matching provision.

SEVERAL FACTORS INFLUENCED THE SCOPE AND NUMBER OF CHANGES MADE DURING EARLY IMPLEMENTATION

During early implementation a major concern was coping with the reduced funding levels accompanying block grants. Adjustments were made, but factors such as ongoing outlays from predecessor programs and provisions requiring continued funding of certain activities limited the scope of initial changes made in most block grants.

For example, the number and scope of adjustments to the three health block grants and the community services block grant were limited in part by legislative provisions designed to ensure continued funding for established services and grantees. Moreover, continued Federal outlays from awards made under the superseded categorical programs have provided States additional time and resources in adjusting to the reduced funding levels.

Almost all of these programs were project grants, or had a project grant component, funded for at least a 12-month period. Because they became effective at various times in the Federal fiscal year, many in the last quarter, these projects are funded well into fiscal year 1982. To illustrate, because States and local entities often have been able to provide services with 1981 categorical funds, on the average, States we visited had not yet drawn extensively upon block grant allocations made available to them during the first half of fiscal year 1982.

For the most part, States were developing plans for making changes to the three health block grants and the community services block grant program. A few States, however, already had made some adjustments. For example, three States we visited had developed formulas for allocating funds under the Community Services block grant. According to officials, these formulas were designed to improve targeting of funds and ensure that grantees did not receive disproportionate funding reductions.

In contrast, more changes were made immediately in block grants which had no ongoing categorical outlays and fewer legislative restrictions. For example, to cope with funding reductions in the Social Services block grant, States more frequently altered previously established funding patterns and employed options to transfer funds among the block grants. Seven of the 13 States we visited had authorized or proposed transferring up to 10 percent of Low Income Home Energy Assistance funds to the Social Services block grant. Also, all 13 States used their new option to set aside up to 15 percent of their Low Income Home Energy Assistance funds for weatherization.

Although the scope of block grant funding changes varied, officials in all 13 States we visited complained that planning was complicated by the uncertainty of block grant appropriations. Also, officials turned to non-Federal sources--such as their Washington liaison offices, public interest groups, professional organizations, and grantees--to obtain data for planning.

While initially concentrating on obtaining information and handling budget reductions, certain States have reported, or contemplate making, management changes to take advantage of reduced Federal application and reporting requirements. For example, eight States we visited noted that (1) less time was required to prepare applications, (2) monitoring activities could be combined, and/or (3) certain reports could be deleted. Although preliminary estimates were made, officials believed it was too early to make any definitive judgments on efficiencies emanating from block grants.

STATE BLOCK GRANT OVERSIGHT MECHANISMS ARE EVOLVING

The block grant legislation and regulations place great reliance on State oversight processes. Also, a fundamental check on the use of funds is States' accountability to their citizens. Generally, States are required to obtain public comments on intended use reports or plans, hold public hearings on the proposed use and distribution of funds, and arrange for independent audits of block grant expenditures.

State legislatures are expected to become increasingly involved in block grant decisions. In 9 of the 13 States we visited the legislatures had enacted measures influencing early block grant implementation and enhancing their oversight of future block grant decisions. Such measures ranged from two legislatures restricting the State from assuming optional block grants to six legislatures increasing their ability to review block grant applications and detailed plans.

Public comment was received in a number of ways. Eleven of the 13 States we visited held public hearings for at least one block grant, even though the public hearing requirements had been waived for fiscal year 1982. Also, views of citizens and local entities were obtained through such means as circulating intended use reports and plans and establishing advisory groups. At the time our field work was completed, States were finalizing plans for obtaining future public participation. A more definitive picture will emerge next year because the public hearing requirements will be in effect and more time will be available to obtain comments on block grant plans.

ROLE OF AUDIT

A primary vehicle for assuring accountability and assessing compliance with Federal law is State audits of block grant funds. Audit strategies are being developed and questions have arisen concerning what would be required to fulfill block grant audit requirements. These questions included the scope of audit coverage required and the reimbursement of audit costs.

To help address these concerns, the Office of Management and Budget last month provided States with a paper describing a framework for financial and compliance audits of block grants. This document discusses factors in choosing and funding the approach to audit block grants. Also, it states that OMB will be requesting States to send their audit plans to the Inspectors General so that an early dialogue can begin on the adequacy of State audits.

While this paper addresses some important concerns, we at the GAO believe that a more standardized audit provision may be desirable for future block grants. Our recent work regarding the block grant transition and developing the single audit concept has prompted us to consider the types of issues which need to be addressed in such legislation. As a result, we are in the process of developing a standardized block grant audit provision which we anticipate recommending that the Congress include in future grant legislation. It would cover both State and Federal Government audit responsibilities. We will make this legislative language available to the Committee when it is completed. We will be happy at that time to discuss how your proposed Block Grant Management Act could be modified to reflect this approach.

Because efforts to refine block grant audit legislation coincide with actions to further develop the single audit concept there is a real need for coordination and leadership to promote effective implementation. I plan to create the mechanism to provide that broad based leadership by forming an audit policy advisory committee. It will include representatives from both the public and private sector audit and user communities such as the Office of Management and Budget, the Inspectors General, State Auditor Coordinating Committee, American Institute of

Certified Public Accountants, the Municipal Finance Officers Association, and users from all levels of government. This committee can provide the focus needed to address problems such as developing a practical and effective quality review process. In the meantime, we suggest that the provisions relating to a quality review process be deleted from your Block Grant Management Act pending deliberations by the audit policy advisory committee. We will be happy to keep you advised of our progress in this area, and we will inform you promptly when I am satisfied that we are in a position to offer definitive recommendations.

OTHER BLOCK GRANT DEVELOPMENTS

I would like to turn now to the subjects of annual reports for block grants and the applicability of crosscutting national policy requirements.

The Reconciliation Act calls for the Secretary of Health and Human Services (HHS) to consult with GAO and the States concerning the form and content of the health block grant annual reports.

The Department has decided it will not prescribe the form or content of these reports. Instead, HHS expects States to develop annual reports that meet the requirements of the law. The States have been working through the Association of State and Territorial Health Officers to modify that organization's health data system to meet the reporting requirements and provide consistent information among States. There are some indications that States are working together in developing similar reporting approaches for other block grants as well. It is too early to tell if this approach will produce sufficient information needed for national policymaking.

There are a number of crosscutting national policy requirements which were enacted through legislation other than the Reconciliation Act. These requirements, such as uniform relocation assistance, merit personnel systems, fair labor standards, environmental protection, political activities constraints, and various civil rights statutes, apply to a wide range of activities receiving Federal financial assistance. There are general references to the civil rights statutes in all but the Social Services and the Elementary and Secondary Education block grant statutes. Agency regulations make them applicable to those programs as well.

By and large the Reconciliation Act is silent on the other crosscutting requirements and so are agency regulations. HHS and the Department of Education have not clarified the applicability of these requirements in the regulations. In contrast, the Department of Housing and Urban Development regulations address the applicability of many crosscutting requirements and indicate that the Department is deliberating on the applicability of others.

Given the short time available to plan and administer the new block grant programs, States are just now considering these issues. Some State officials are uncertain as to the applicability of these requirements to the block grants and believe that Federal advice on this matter would be helpful. We believe the Administration should clarify for the States whether these requirements apply to the block grants. If the Administration considers an applicable requirement to be inappropriate, then it should propose remedial legislation to the Congress.

CONCLUSION

I have concentrated on what I consider to be the major issues emerging from our efforts to monitor early block grant implementation.

Over the next few years I plan to place major emphasis on continuing to monitor the transition, reporting on services provided under the block grants, evaluating the effectiveness of block grant programs, and reviewing the scope and quality of State and local auditing coverage. As our work on block grants progresses, we will keep this Committee fully informed.

That completes my formal statement. My colleagues and I would be pleased to respond to any questions.

STATES INCLUDED IN GAO REVIEW

California

Colorado

Florida

Iowa

Kentucky

Massachusetts

Michigan

Mississippi

New York

Pennsylvania

Texas

Vermont

Washington

Senator **Durenberger**. Our next witnesses will be the first of two human resources panels. Each panel will have two witnesses. The first panel will be representing advocacy groups and the other will be representing the services groups. Our first human resources panel will consist of Brenda Russell from the Child Welfare League of America and Alma Stallworth from the National Black Child Development Association.

We will begin with Alma's testimony to be followed by Brenda. Both of your statements will be made a part of the record. Please proceed and stay within the 7 minutes allotted.

TESTIMONY OF ALMA G. STALLWORTH, PRESIDENT, DETROIT METRO AFFILIATE OF THE NATIONAL BLACK CHILD DEVELOPMENT INSTITUTE, DETROIT, MICH.; AND BRENDA L. RUSSELL, LEGISLATIVE ANALYST FOR CHILD WELFARE LEAGUE

Ms. **Stallworth**. Thank you very much, Mr. Chairman. My name is Alma Stallworth. I am a voter and taxpayer within the State of Michigan. I am currently employed as a policy associate at the High/Scope Educational Research Foundation, Center for the Study of Public Policies in Ypsilanti, Mich. I have previously served in the Michigan House of Representatives, as a county charter commissioner, as well as a voluntary civic leader and advocate. My 20 years of public service have been divided equally between governmental and nongovernmental efforts to support and expand our potential as a society to respond to the needs of children and families.

I am here today representing the National Black Child Development Institute (NBCDI) with its 1,000 members and 25 affiliate chapters. I currently serve as president of the Metro-Detroit affiliate. NBCDI primarily focuses its efforts within three major policy areas: child care, child welfare, and education. NBCDI at the national level, as well as the local level, is composed of a cross representation of persons and agencies who all share a commitment to the positive development of black children and families. I wish to share with you some of the grave concerns of the people of Michigan regarding the New Federalism and its impact on human services.

The idea of block grants initially had been attractive to Michigan because many governmental officials and administrators saw this shift as an opportunity to distribute funds in accordance with need and with minimal restrictions, without burdensome Federal regulations. They also anticipate continued levels of funding from Washington.

I will attempt to outline in the brief time allotted me the realities of this shift to block grants and its fiscal impact on the Michigan Department of Social Services by way of the social services block grant. My discussion will be advanced within the context of its impact on children and youth specifically.

In Michigan, the State has already responded to severe revenue deficits by budget reductions throughout State departments. The Department of Social Services' funding shifts had already occurred within title XX by way of a transfer of adult home help to title XIX, virtually eliminating family services and reducing day care rates.

Title IV–E and IV–B programs were also strained to funding limits; any excess beyond a 2-percent cushion in Public Law 96–272 meant a 100-percent State funding for foster care and adoption subsidy. Further cuts in titles XX, IV-E and IV-B programs would seriously compromise service delivery to significant numbers of the Michigan population. The heaviest burden of cuts would affect the elderly and the children—and I would have to say black children, since we are disproportionately represented in the system. We feel that the reforms of Public Law 96–272 were in serious jeopardy with the proposed block grant. As you know, the act had established Federal fiscal incentives to preserve families and to move children into permanency. The act also was cost-effective. It was estimated that over $4 billion in costs of out-of-home care would result over the next 5 years by reducing 30 percent of the youth in care. Our total estimated loss in funds was $30.4 million.

The Michigan Department of Social Services (MDSS) will lose $5 million to Public Health for health services, health promotion, and disease prevention activities. Another change in administrative responsibility due to block grants is that MDSS will no longer share the work incentive program with the Department of Labor. It has been renamed the employment training program, and we wonder what that means.

In terms of implementation, the State intends to participate in seven of the nine enacted block grants. We have held hearings to collect comments on the various proposals: alcohol, drug abuse and mental health; social services; maternal and child health care; preventive health care; and Low Income Energy Assistance. Hearings on the other two proposals, community services and small cities community development, will be held this fall.

We have proceeded to implement our block grant proposals as outlined in the law. The Michigan Department of Social Services had already developed and published a proposed plan for utilizing title XX funds in fiscal year 1981–82. That plan was submitted as Michigan's plan for social services block grant implementation. Michigan was the only State that implemented the social services block grant on October 1, 1981, as required by early Federal regulations. I cannot overemphasize the serious fiscal problems that the State was experiencing at that time.

Currently, in Detroit, our unemployment rate is 17 to 21 percent. So we have realized the options which would offset the cuts from the Federal Government.

The hearings were held in several locations throughout the State: Detroit, Alpena, Marquette, Traverse City, and Grand Rapids. They were conducted by a human services cabinet which coordinated and worked out the schedule. They represented the heads of the various departments. I would have to say that in terms of the results of the hearings, it was found that the competition between advocates for children and adults and for private versus public agency funding were split down the middle. Most of the people who testified voiced a concern about day care cuts and adult home help.

We felt that there was not an appropriate representation from the total need population. Another shortcoming of the hearings is that there was not enough time for people to be fully informed as to what kinds of information would be expected and needed. That would have an impact on the process. I would also have to say that there was a wide range of issues presented. This made it difficult to establish specific categories.

We have received testimony from 242 individuals, representing both the public and the private sectors. This number includes the executive branch and the legislators. This is not many for the whole State of Michigan. In spite of our efforts to publicize, that was the response.

In terms of our recommendations, we feel that the categorical laws, the regulations, the funding, and the leadership provided by the Federal Government for these programs—especially Public Law 96-272, the Adoption Assistance and Child Welfare Act of 1980—should stay intact.

We should continue to require matching formulas so as to insure the participation and prioritization of programs at the Federal, State, and local levels. We support passage of legislation which would restore moneys to title XX, AFDC, and Low Income Energy Assistance, as conceptualized in H.R. 5791.

The only other thing that I would say is that the people of Michigan, particularly southeastern Michigan where I reside, also have a concern that local units of government have some effective mechanism where they can have input and feel that they are having some control and effect on the decisions.

Senator DURENBERGER. Thank you very much for your testimony.

Ms. Russell?

Ms. RUSSELL. Senator Durenberger, I am Brenda Russell, legislative analyst for the Child Welfare League of America (CWLA). As an organization that is dedicated to the improvement of the lives of children and their families, we are pleased to be invited to speak to you today regarding various block grant issues of concern to us, issues that affect the quality of life for the vulnerable children, youth, and families of America.

The League is a privately funded organization whose agencies provide crosscutting services to children, youth, and families. Members and affiliated agencies of the League serve several million children nationally. We also speak for over 6,000 volunteer board members and several thousand more direct service volunteers. This, then, is the uniqueness of CWLA: We are not only an advocacy organization, but our agencies serve children and their families in every State in the country. In other words, for the past 62 years, our business has been serving children.

We are pleased and grateful that you, Senator Durenberger, are also concerned about the health and welfare of our Nation's children, and that you recognize the importance of protecting our Nation's future by providing adequate care for our children today. We applaud you for providing this forum to begin to examine the issues before us now. We say "begin" not because this is the first forum that you have provided, but because issues of national importance require detailed analysis and planning before major shifts in public policy occur. We do hope this is the start of a thoughtful process.

We know of your genuine concern for rational planning and hope that you will do everything in your power to see that the action is slowed down enough so that a deliberative process can take place. One of the first tasks in that process is to look at what has already been enacted, how it has been implemented, and see what we can learn from that experience before we proceed any further. We should also assess how well State and local governments are implementing current categoricals before we consider whether or not to block those specific programs.

The League shares your concern that protections for the beneficiaries of programs are lacking in the nine block grants which were enacted last year in the Reconciliation Act. We do believe that it is a step forward to mandate certain protections for citizens in all block grants. However, there are several problematic areas in the draft of the Uniform Block Grant Management Act on which we are pleased to have the opportunity to provide constructive comments.

We recommend that any uniform block grant language drafted address the basic requirements necessary for the input of citizens and the effectiveness of the programs. Among others, the following are a number of critical principles that must be addressed as you consider block grants, in order to protect the beneficiaries of these programs and to be responsible to the taxpayers who enable these programs to be available.

Paramount is the necessity for adequate and stable Federal funding to meet the needs of our vulnerable citizens, and to allow a rational planning process to occur so that resources are expended in the most efficient manner.

Self-determination for the citizenry is involved. In order to guarantee that block grant programs are, indeed, more in touch with the needs of State and local populations, public participation must be built into the system at all levels. Accountability to the citizenry to maintain program integrity requires adequate records, auditing, and oversight.

Federal oversight and enforcement of basic human rights and protections such as civil rights and due process for beneficiaries must be provided.

There needs to be a process at the local level which insures that scarce resources are targeted to those most in need.

Uniform language should not preclude inclusion of additional safeguards in any block grant program, nor supersede safeguards presently in force.

The League is only one of many, many concerned organizations and citizens who believe that these principles are an absolutely necessary requirement for human services programs. We are active participants in the Coalition on Block Grants and Human Needs. As such, we worked diligently to secure citizen protections through the provisions of title XVII of the Reconciliation Act.

We have also participated in the grants and contracts task force for many years. The task force is composed of national voluntary nonprofit organizations concerned with common issues which the voluntary sector encounters with regard to government grants and contracts. Currently, the task force is analyzing the draft Uniform Block Grant Management Act. The specific concerns we have regarding the language of the proposed act are being drafted and will be submitted to the subcommittee on behalf of the League and other members of the task force. The work is almost complete. We request that the hearing record remain open in order to include this important assignment.[1]

Senator **Durenberger**. The hearing record will remain open for 2 weeks.

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[1] See p. 233.

Ms. RUSSELL. Of the nine block grants enacted under the Reconciliation Act last year, we are the most familiar with the title XX social services block grant We have extensive experience with this block grant. If there is one thing we can testify to, it is that you simply cannot make quick turn-arounds of a major nature, as occurred during reconciliation. No responsible business would implement major redirections without adequate assessment, planning, and lead time. Such dramatic policy shifts can hurt the very people the program is intended to benefit.

The original title XX block grant was created as part of President Nixon's "New Federalism." This block grant was created after several years of work by service providers, the voluntary sector, public administrators, the States, and the administration. The result was a good balance between flexibility with local control and enough program structure to insure protections for the beneficiaries, and that those most in need would receive the services. Yet even with this deliberative process throughout the development of title XX, it took 2 to 3 years before the States really had their programs in place.

Now is the time to stand back and take a thorough look at what works or doesn't, and how or why. Under the Reconciliation Act, title XX was amended to incorporate State and local training and social services for the territories into a new block grant. Critical provisions developed over time such as the State matching requirement and the State planning and public participation requirement were wiped out. Funding was cut by 23 percent, almost $700 million, for fiscal year 1982. A major concern of CWLA is that the block granting which took place last year really amounted to cost-cutting and cost-shifting from the Federal Government to the States under the guise of increased flexibility.

We are in a position to make some partial assessments about the implementation of title XX since last fall, as we maintain regular contacts with public and private voluntary nonprofit agencies throughout the country. We would like to share some of that information with you now.

We found that the States dealt with the block grants in a varied fashion. We heard overwhelmingly from the States, with regard to title XX, that it is not the block grant per se but the cuts in funding and the lack of lead time that are hurting the States from both the planning and the service standpoint. States are complaining about the difficulty in planning when faced with the uncertainty of Federal funding levels.

States are also unable to deal with the block grants as if they existed in a vacuum. Increased demand for the services offered under title XX has been experienced now that the impact of the reductions in other programs like AFDC, medicaid, food stamps, housing, CETA, and other block grants are being felt. Social services and prevention activities have given way to meeting basic survival needs. Overwhelmingly, the States have said that they are reducing purchase of services contracts.

An overwhelming number of States report that their preventive services components have been cut as a result of cuts in the XX. However, the national study of the incidence and severity of child abuse and neglect reports an increase in substantiated cases of over 17 percent in the last 2 years. The vast majority of protective services are provided for through the title XX program. Overwhelmingly, States say the real impact will be felt in fiscal year 1983 and more so, if additional cuts in title XX go through.

Some of the most cost-effective services are being cut. These types of cost-effective services must give way in order to assist those in more dangerous circumstances. The major dislocations that have occurred in the title XX program—a block grant that was "block granted"—give only a sample of what may have happened in categorical programs that were turned into block grants. The transformation of categoricals to block grants is a major policy shift in and of itself. When that is piggybacked on top of drastic funding reductions, with limited transition time and protections for citizens, confusion and waste result, neither of which is a goal for sound public policy.

The League would be pleased to provide you with any additional information that would be of assistance to you in your work. We would like to thank you again for this opportunity and for your willingness to take the time and effort to include the voluntary sector and other concerned organizations and citizens in the discussions of these critical public policy issues.

Senator DURENBERGER. Thank you very much for your testimony.

Each of you has provided us with substantial facts and figures about the implementation of the social services block grants. I think we can agree on the need to provide programs which address human needs, and on the need to back those programs up with resources.

In developing the original title XX block grant—and I mean the original one, not the process we went through last year—your testimony pointed out that we can look at title XX somewhat differently from some of the other blocks. Not only because of the amount allocated for the block, but because special care was taken to separate income maintenance from social services when it got put together.

Brenda, you mentioned that in New York, just as an example, they are exploring the reintegration of income maintenance and social services activities. The reason is, principally, to reduce costs. In other words, there is a lack of adequate resources.

Ms. RUSSELL. That is correct.

Senator DURENBERGER. When you look at the possibility of turning programs over to the States—as the President and some of the rest of us are proposing to do in the sorting-out process and through the turnback process—is it fair to say that social services programs can fare better at the State level than the income maintenance programs might?

Ms. RUSSELL. I think that is fair to say. We have had some experience with the effects involving title XX. That is, providing adequate resources to meet those needs, as there used to be in title XX.

Income maintenance is of a very different nature. The rise and fall of that program is dependent upon so many factors outside of a specific State. We do believe that income maintenance programs are a national policy issue.

Senator DURENBERGER. However, assuming there is an adequacy of resources, we might determine that the basic responsibility for the delivery of social services can be better at the State level. Is that your testimony?

Ms. RUSSELL. In most instances, yes. However, there are some specific programs that have service components that we do believe still need Federal oversight; the Adoption Assistance and Child Welfare Act is a classic example. We believe that there was overwhelming documentation in the States that those needs were not being met. We think the block granting of that law would be just catastrophic for children. We feel very, very strongly about that.

Ms. STALLWORTH. I would have to say, from my experience in the State legislature, it is difficult for the legislature to target the money to the areas where there is need. The urban centers—where you have a concentration of poor, minorities, and others—have to fight with the upper peninsula, where perhaps there are fewer people who fit into those categories. So how do you get equity in terms of distribution? That would be my problem with the Federal Government removing itself from that process.

The other thing is that, in terms of the hearings being realistic as a mechanism for citizens to have input, the citizens who need to be heard rarely are there. What we have is a lot of information circulating in a vacuum. It never gets down to the grassroots to the extent that they can feed back into the system and give a realistic perspective as to how the system is working. That is the problem with the block grant, as I see it. We have lots and lots of activity. Everybody is organizing the coalition. We have lots and lots of workshops, teach-ins and so forth. But I am still not sure that people who need to be part of that process are having input into it.

I don't have the answer. It is a source of frustration at this point. Maybe as we move further along, this will resolve itself. I do feel that the urban centers do need as much support as possible politically.

Senator DURENBERGER. In your testimony you made some comment, Ms. Stallworth, about your concern for the needs of minority children and families. Is there any evidence, of which you are aware, that the minority groups in Michigan, or in the Nation as a whole, have been disproportionately affected by block grants—other than what you said in terms of disproportionate representation in the system itself?

Ms. STALLWORTH. That is a hard question to answer. If you mean disproportionately represented politically, I would have to say yes. We don't have near enough people representing us within the process who could represent the minority perspective.

In terms of public policy, we have very few groups that are professional advocates. Most of our people have to work, if they are lucky enough to have a job. Those who are employed do not have the sophistication to come to a hearing and speak to you about their destiny. I think that this is a learning process for us. Certainly, with the block grant it becomes an educational one, as well, because we have to read and study.

Personally, I think that the relationship with the Federal Government overseeing these programs as they feed into the States is a good one. I would like to see your involvement continue.

I don't know if I have answered your question, but that is how I see it.

Senator DURENBERGER. One of the issues that may need further exploration—not here, but in the process—is the role the voluntary sector plays in the delivery of human services. I am on record many times as saying that the government is a better purchaser of services than a provider of services.

Your testimony speaks to the lack of parity between the States and the voluntary sector in terms of reimbursement of administrative and other costs.

In your written statement you pointed to the example in Hennepin County with which I am certainly familiar. The public employee union and contractors may not lay off State personnel in favor of a more cost-effective purchase of services from private providers. Nobody wants to lay off workers. Nobody wants to lay off union members. As we look to the future, do you have any advice on how we can show a preference for private providers, especially when it can be shown that it would actually benefit children and families, as well? How do we overcome that?

Ms. RUSSELL. I think there could be some language included in the bill. If you look at title XX, for instance, there is language that specifically allows, but doesn't mandate, nonprofits to conduct and provide training programs, which is a first step.

You could put a perference statement in the law that, to the extent practicable, the State and local governments should opt for purchased service from the voluntary nonprofit private sector. It is more cost beneficial to utilize the resources of the voluntary sector. The voluntary sector uses their resources to build the physical structure and to provide a lot of additional services for those people for which the taxpayers do not have to foot the bill.

I think there could be some language drafted in the bill where the local governments were talking about the need for pass-through of funding. If so, then it should be considered for the voluntary sector also in terms of parity in the system.

There is Circular A-122, "OMB Cost Principles for Non-Profit Organization", which OMB has not yet implemented. These principles were worked on for many years and insured some parity with the nonprofits and the public sector.

I think that parity in the systems through purchase of services contracting is a critical issue that needs to be addressed. It is a sound policy decision, even more so in light of diminishing government resources.

If we want the voluntary sector to do more, we must, in fact, be very up front about supporting the voluntary sector and enabling them to do more. The will is there. You have to give them some more support in order to strengthen the public-private partnership in the delivery of human services.

Ms. STALLWORTH. I don't want to be redundant. I guess I would see it as a combination. I don't see the private sector having the capability to entirely pick up these services, even if you were to pursue it through the purchase of a contract. I would think that the numbers are still so great that we don't have the resources. I am speaking of Michigan. There is the other problem with this, the variety from State to State. Some States have more resources than others. That is a consideration. I think that flexibility should be there, if we want incentives. If a State has that option, they will see where they can make it.

Senator DURENBERGER. Thank you very much for your testimony. I regret that we don't have more time today.

[The prepared statement, addendum, and table of Ms. Stallworth and the prepared statement of Ms. Russell follow:]

PREPARED STATEMENT OF ALMA G. STALLWORTH, PRESIDENT, NATIONAL BLACK CHILD DEVELOPMENT INSTITUTE, INC., METRO-DETROIT

My name is Alma Stallworth. I am a voter and tax payer within the State of Michigan. I am currently employed as a Policy Associate at the High/Scope Educational Research Foundation, Center for the Study of Public Policies for Young Children. I previously served in the Michigan House of Representatives, as a County Charter Commissioner, as well as voluntary civic leader and advocate. My 20 years of public service has been divided equally between governmental and non-governmental efforts to support and expand our potential as a society to respond to the needs of children and families.

I am here today representing the National Black Child Development Institute with its thousand members and 25 affiliate chapters. I currently serve as President of the Metro-Detroit Affiliate. NBCDI primarily focuses its efforts within three major policy areas: child care, child welfare and education. NBCDI at the national level as well as at the local level is composed of a cross representation of persons and agencies who all share a commitment to the positive development of Black children and families. I wish to share with you some of the grave concerns of the people of Michigan regarding the new federalism and its impacts on Human Services system.

The idea of Block Grants initially had been attractive to Michigan because most governmental officials and administrators saw this shift as an opportunity to distribute funds in accordance with need and with minimal restrictions, and without burdensome federal regulations. They also anticipated continued levels of funding from Washington. I will attempt to outline in the brief time allotted the realities of this shift to Block Grants and its fiscal impact on the Michigan Department of Social Services via the Social Services Block Grant. My discussion will be advanced within the context of its impact on children and youth specifically.

I. State Reaction to Proposed Social Services Block Grant

- In Michigan, state has already responded to severe revenue deficits by budget reductions throughout state departments.
- In DSS, funding shifts had already occurred within Title XX via transfer of adult home help to Title XIX, virtually eliminating family services, and reducing day care rates.
- Title IV-E and IV-B programs were also strained to funding limits; any excess beyond a 2% cushion in PL-96-272 meant 100% state funding for foster care and adoption subsidy.
- Further cuts in Title XX, IV-E and IV-B programs would seriously compromise service delivery to significant Michigan population.
- Heaviest burden of cuts would effect the elderly and children.
- The reforms of PL 96-272 were in serious jeopardy with the proposed block grant.
    1) act had established federal fiscal incentivies to preserve families and move children into permanency,
    2) act was cost effective; estimated that over $4 billion in costs of out of home care would result over the next 5 years by reducing 30% of the youth in care.
- Our total estimated loss in funds was $30.4 million.
- As state's fiscal crises prevented picking up deficit, the following cuts were made in MDSS.
    1) elimination of foster parent, adult foster parent, and day care provider training,
    2) elimination of grants to universities,
    3) shift day care to Title IV-A,
    4) reduce appropriation to transportation to sheltered workshops,
    5) redeploy field services staff in family and basic adult service programs,
    6) close Wayne County BulS Division,
    7) reduce donated funds and increase match to 50%.

- MDSS as administrator for Social Services and Energy Assistance Block Grant:
    1) MDSS will lose $5 million to Public Health for health services, health promotion and disease prevention activities.
    2) another change in administration responsibilities due to block grants: MDSS no longer shares Work Incentive Program with Labor.
- DSS sole administrator for program re-named Employment Training Program.

II. Implementation of Block Grants in Michigan FY 82-83

- Governor indicated Michigan's intent to participate in 7 of 9 enacted block grant hearings held to collect comment on all the block grants:
    1) alcohol, drug abuse and mental health,
    2) Social Services,
    3) maternal and child health care,
    4) preventive health service,
    5) low-income energy assistance.
- August 31, 1981, Reagan signed Omnibus Reconciliation Act, which reduced entitlement programs by 13.4 billion and other federal programs by 21.8 billion for FY 82.
- Consolidated 57 separately funded programs.

III. Implementing the Social Services Block Grant

- The reconciliation conference committee worked out the differences between the Senate and House version.
- Final version consolidated social services programs under Titles I, IV-A, and XX.
- Service programs for families and children under IV-A and B and retained until regulations for Child Welfare Program (96-272) are revised.
- Transition requirements:
    1) states eligible to receive funds under 6 of 7 block grant effective 10/81 (exception is primary care block grant, eff. 10/82).

2) transition period is FY 82 only,

3) four block grants allowed state to initiate operations under block grants on 10/1/81 or at beginning of any subsequent quarter,

4) during period state not funded under block grants, state may administer existing program,

5) exceptions to transition were social services and low-income home energy since funds for these programs went directly to State in past.

IV. Effect of Social Services Block Grant in Michigan, FY 1981-82

- As MDSS had already developed and published a proposed plan for utilizing Title XX funds in FY 81-82, that plan was submitted as Michigan's plan for Social Services Block Grant implementation.

- Michigan was the only state which implemented the social services block grant October 1, 1981 as required by early federal regulations.

- Public hearings were held in six locations around the state (Lansing, Detroit, Alpena, Marquette, Traverse City and Grand Rapids) at the urging of the Coalition for Fair Implementation of Block Grants.

    1) Governor requested Human Services Cabinet to coordinate; the Cabinet membership consists of the directors of state departments: Mental Health, Public Health, Social Services, Labor, Education and Office of Management and Budget,

    2) the hearings intended to receive public input on how to use the block grant funds and the proposals contained in Executive Budget.

V. Results of Hearings

- Initial reaction by Cabinet and others in attendance:

    1) competition between advocates for children and adults, and private vs public agencies for funding,

    2) recipients who attended voiced most concern about day care cuts and adult home help.

- Input received was primarily from same people we hear from at each hearing, the knowledgeable advocate.

    1) concern that they didn't reflect total need of care group,

    2) advocates occasionally get too far removed from group they represent.

- Governor's office is to make the final decision with Human Services Cabinet as to how to use block grant funds, and the recommended implementation.
- Input into process is still being accepted; comments can be sent to Governor's office.

VII. Future of Block Grants

- For coming fiscal year, Reagan Administration is again proposing the inclusion of some programs into block grants:
  1) Child Welfare and Adoption Assistant Programs (96-272),
  2) Child Welfare Training Programs,
  3) Education of the Handicapped (includes kids who are physically, mentally or emotionally handicapped).
- Also proposes further funding reduction in other programs:
  1) 25% reduction in juvenile justice programs,
  2) 36% reduction in runaway and homeless youth programs,
  3) 18% additional reduction in child care, totalling loss of service 250,000 families in combined fiscal years,
  4) terminate WIC, supplemental food program for women, infants by folding it into Maternal and Child Health Block Grant funding than current WIC operating levels.
- Block grants are the first major step towards new federalism.
- Effect of federalism seem in loss of all accountable requirements for states.
  1) loss of federal fiscal incentives could mean further cuts in health, special education and child welfare to name a few,
  2) end result would be higher cost for state as prime sponsor,
  3) more important would be loss of equitable services for children and families as states pull back resources to services make up for less federal dollars.

On behalf of the National Black Child Development Institute, its members, its affiliates and most important the children and families that we serve, I urge you to take some specific steps to help children:

1) retain the categorical laws, the regulations, the funding and the leadership provided by the federal government for these programs, especially PL 96-272, the Adoption Assistance and Child Welfare Act of 1980;

2) continue to require matching formulas, for they insure participation and prioritization of programs at the state, federal and local levels;

3) support passage of legislation which would restore monies to Title XX, AFDC, and Low-Income Energy Assistance as conceptualized in HR 5791.

4) let the dust settle on the present structure before considering cutting any further into various programs affecting vulnerable children and their families; and

5) join House members and Congressman George Miller in their efforts to establish a Select Committee on Children, Youth and Families.

I am grateful to your Chairman and the members of this Committee for allowing me the time today to share my thoughts with you.

The Human Services Cabinet held a series of six public hearings around the state to gain public input to assist the state in setting priorities for the fair implementation of block grants.

Testimony was taken from 242 individuals. Members of the public and private sector testified, including the Executive branch and the Legislature and also providers and consumers of services.

The issues identified were:

A higher priority should be placed on services for adults. (18)

A need for community access to the decision making and planning process. (12)

Protective services for adults should be as high a priority as protective services for children. (11)

Opposition to block grants. (10)

Child care services should be increased. (15)

Handicappers need additional educational, social and housing services. (5)

Low income energy assistance eligibility criteria are too strict. (2)

Community placement should be funded at a higher level. (2)

Funding for mental health services should be at least equal to that of alcohol and substance abuse.

4C should be funded.

Community mental health consultation and education service programs should be continued.

Fear of service cuts.

Belief that there is little concern for continuity of services.

Department directors need to communicate and jointly develop consistent policies.

Emphasis must be placed on covering service gaps created by block grants.

Block grant reductions are seriously effecting ability to deliver social services.

Short notice of public hearings impeded meaningful public input.

Need to develop a process for needs assessment that is the same throughout the state using demographic criteria in addition to population.

Cuts in Medicare and Medicaid/ADC, health and education cause suffering.

Compensation for staff providing adult PS should equal childrens PS.

More block grant money should go for low income senior housing.

Support for primary health care and migrant programs.

Fear lobbying will effect fund distribution and the developmentally disabled will suffer.

Genetic disease testing and counseling is an essential service.

Block grants do not address unemployment.

Some school boards will not enforce education for all children. Regulatory enforcement tools are necessary.

Migrant workers need day care. Bilingual staff must be continued.

Emergency medical services must be funded. Funding should be on a regional basis.

Only services that have a clear statutory mandate should be continued.

Adult day care centers are necessary for people's survival.

School consultation services are needed.

Prevention services for children must be increased.

Human services should be a priority over defense spending.

Family services are an increasing need.

Spouse and child abuse and prevention services are most needed.

Expand the block grant process so that local agencies and local units of government are given the same discretion the federal government has given the states.

Reduce or eliminate unnecessary reports and restrictions required by the state for the use of these funds.

Encourage the development of human service coordinating councils on the local level which would be responsible for assessing local needs and for allocating block grant funds to meeting local priorities.

Eliminate the duplication of effort which current state laws and policies force upon agencies. As an example, why do we need several agencies providing home help services, several agencies involved in senior nutrition programs and several agencies doing adult community placement?

Reassess the entire purchase of service contract system and determine which functions can be done better by local staff and which should be contracted.

Five testified that day care should be a higher priority. Cuts in day care impact head start, working mothers and those in school. Home health care should be a priority.

Cut unnecessary regulation.

Indians want recognition by the State of tribal government.

Community action agencies want the Department of Labor and Governor to inform the President that the proposed 70% funding cut would eliminate these agencies.

Safeguards should be built into block grants for rural areas.

Consumers should be involved in planning.

State should assure that human service funds are used for human services at the local level.

Outreach services need more consideration.

Include public input in priority setting and consider demographic differences.

Low income people in mortgage default need continued assistance.

Indian tribes should be considered separately. Tribal government should speak for Indians.

Alcohol and drug abuse programs need increased support as 85% of crimes committed locally involve substance abuse.

Need for increased support for in-home care for seniors to keep them out of institutions.

Transportation should be a higher priority in rural areas.

Make counseling a priority

Consider cash and quality of service when contracting

Prevention should be a priority

Need rural protections built into block grants

Private agencies need continuing input to priorities setting

Volunteers should continue to be used to make programs cost effective

Support the need for home help services for seniors to allow them to remain at home

More coordination is needed for Human Service Programs on state and local level

Prevention of rape and domestic violence programs need to be a higher priority

Need more home care services for elderly with training for providers (4).

Day care, mental health, substance abuse services needed for seniors.

Need psychiatric care for kids and additional community placement (3).

Control administrative costs at state level (2).

Citizens should provide oversight to grant distribution.

Eligibility for low income energy assistance too restrictive (2).

Need services to keep mentally ill and developmentally disabled persons out of institutions.

More attention needed for protective services to adults - more staff -24-hour service (2).

Youth employment programs should be funded.

Job training for developmentally disabled needed.

More AFC quality placements needed.

Need summer special education programs.

DMB should not set priorities.

Public should know services they expect can't be provided.

Housing assistance should be a priority.

Need more prevention and family supportive services.

After care services needed for mentally ill.

Rural communities should not be forgotten.

Day care activity for severely physically handicapped should be a higher priority.

Indians need their own service system; need more substance abuse service.

Need nutrition services for children.

There should be increased collaborative efforts between public and private sector.

Partnership of state and county government important. Local coordinating councils a good mechanism. (8)

Federal government hiding massive cuts with block grants-oppose block grants. (2)

State must assume responsibility for adequate funding levels.

State cannot tolerate additional human service cuts.

Governor must lobby the president and congress to restore cuts. (4)

Lansing school district cannot maintain minimum education standards or support services.

Protections previously provided by categorical funding no longer available at the state level. (2)

Programs should not have to compete for funds.

Public needs access to department plans in developmental stage.

Legislature oversight needed.

Need more hearings.

Creative efforts need to be sustained.

More information regarding specific programs should be made available.

Priorty should be placed on prevention - HMO's, reduce hospital beds, no additional nursing home beds for DD/MI, set rates for physician insurance.

Mental health prevention services should be statewide.

Reduce administrative costs.

Program priorities should be set according to need.

Only fund those programs with a statutory base.

Eliminate low priority programs.

Balance service delivery between public and private agencies.

Civil Service should allow private long term contract when they are more cost effective.

Adult home help and personal care are needed for physically handicapped.

Community Action Agencies provide needed services.

Consider non-profit agencies as a resource.

Weatherization programs are cost effective and valuable.

Diminishing services to older people have put them at risk. Office of Services to Aging should participate in priority setting.

Migrants need continued services.

Indians should be included in planning for block grant funds. (2)

Aftercare services for mental health needed most in rural counties.

Services should be targeted for need rather than to continue with established priorities.

CMH services are inadequate.

Housing services need a higher priority. Energy and weatherization programs are cost effective and should be a state responsibility. (3)

In home services to elderly physically and mentally handicapped needed day care for elderly also important to avoid institutionalization. (8)

Local government should have control and accountability. (2)

Block grant expenditures should be monitored independently.

There are too many forms. Process to obtain government funds is too complicated; rules too restrictive.

Fathers need equal consideration with maternal and child care funds.

Infant mortality rate is increasing, more attention needed to health services.

Military spending should be cut to fund human services.

Basic human needs are not being met. (3)

Indians need health care fund from the state.

Fear those able to lobby for funds will be considered rather than those in real need. (3)

Comprehensive rat control should be a priority.

Local coordinating councils are needed to avoid duplication. (5)

Standards and regulations should be developed for the fair implementation of block grants - limit administrative costs. Should be monitored and evaluated.

Reduced funds should be targeted to high density areas of unemployment.

Day care for children should be increased.

Specific allocations for community economic development are needed.

Substance abuse programs in Detroit are in trouble - problem growing rapidly. Prevention programs needed. (3)

Employment and training programs need a higher priority.

Services to single mothers should not be cut.

Citizens should be allowed to assess need.

Federal program protection need to be implemented by state.

Lead poisioning program should be continued.

Records of each public hearing are available upon request.

ADDENDUM TO TESTIMONY OF ALMA G. STALLWORTH

The magnitude of our concern over the continued adequate funding of services to children and youth is greater than ever before. The current uncertainty of the negotiation of the 1983 Federal budget and the economic crisis in Michigan, recently ceased to a degree by the State income tax increase, does little to ease the concern. We have been fortunate in maintaining our services to children and youth, to date. However, as Federal fiscal participation declines, Michigan finds it increasingly more difficult to assume the added cost. Michigan's proposed Executive Budget is based upon projected revenues and upon expected Federal participation and we are all aware of the varied opinions regarding the legitimacy of such projection and expectation. Michigan, even with the approved income tax increase, is facing a budget reduction of an estimated $630 million for this fiscal year.

Children and Youth Services have been fortunate so far, when compared to other State government services, because the Title XX block grant was not cut as deeply as originally proposed for fiscal year 1981–82 and because Public Law 96–272, the Adoption Assistance and Child Welfare Act of 1980, survived.

However, proposals are currently pending before Congress for an 18 percent cut in Title XX, amounting to $426 million, and a 30 percent cut (in block grant form) in Public Law 96–272 funding amounting to $170 million.

Michigan's budget director estimated that the fiscal year 1982–83 Federal budget as proposed would result in a net loss to this State of $1.7 billion. Of this amount, $210 million would be lost by the Department of Social Services in AFDC, Medicaid, food stamps, SSI, and other programs. In addition, Federal aid to education would be reduced by $80 million.

Predicted reductions in the Department of Social Services are: AFDC, $78 million; Food Stamps, $66,800,000; Medicaid, $45,100,000.

Reductions in other State departments that would effect children and youth either directly or indirectly are estimated to be: Trade Readjustment Assistance, $40,200,000 (directly effecting ADC–U and GA caseloads); Education—general, $53,200,000; Vocational Education, $14,500,000.

It is inconceivable that Michigan can achieve sufficient economic recovery that would enable adequate supplementation of such a reduced level of Federal funds.

Federal revenues will decline because of the already approved 10 percent income tax reductions in 1982 and 1983 and the growing rate of national unemployment (9.4 percent). Federal defense spending will accelerate at the expense of domestic programs. Proposed block grants to States are funded at a lower level. Michigan continues to experience reduced revenues because of unemployment (15.4 percent) and the creeping economy of commerce and industry. The malaise of recession is nationwide and, unfortunately, Michigan appears to be hardest hit.

The current condition of the economy, when reduced to the human level, contributes to the disintegration of individuals and families and the need for services increases as resources decrease. We have experienced a reduction of staff through attrition and a hiring freeze and this has placed added burdens on field service delivery staff as client numbers and needs have increased. This can only result in less service, despite the best efforts of the service providers.

Within the Department of Social Services, Adult and Family Services Field Staff numbered 1,744 as authorized by the fiscal year 1981–82 budget. Currently there are 1,532 positions and this current number is recommended in the Executive Budget for fiscal year 1982–83. Children and Youth Services Field Staff, administered by Field Services Administration, was authorized at 1,221.5 full time positions for fiscal year 1981–82. Currently there are 1,112 positions and this number is recommended for fiscal year 1982–83.

Neither the Federal nor the State budgets for fiscal year 1982–83 have been acted upon at this time. We must endeavor to maintain the integrity of human services and to influence the decisions effecting those services by whatever legitimate means possible.

Following are recommended levels of funding for fiscal year 1983 as compared to fiscal year 1982 funds and proposed fiscal year 1983 Federal budget cuts.

OFFICE OF CHILDREN AND YOUTH SERVICES

Program	Funds allocated 1981	Funds allocated 1982	Recommended 1983	Percent difference fiscal year 1982-83
	(A)	(B)	(C)	(D)
1. County juvenile officers	$2,240,000	$2,270,600	$2,324,500	+2.4
2. Child care fund	28,836,300	24,536,300	27,622,595	+11.4
3. Adoption subsidies	4,300,000	8,099,950	8,951,407	+9.6
4. Foster care payments	59,000,000	63,200,000	60,270,000	−4.7
5. Substance abuse	1,039,300	1,072,800	1,126,400	+4.8
6. Institutional services	14,054,800	12,262,000	12,592,300	+2.7
7. Community care-deliquent	272,800	342,100	366,047	+6.6
8. Community residential care	1,245,628	1,213,800	1,274,490	+4.8
9. U.P. regional detention	90,300	183,000	554,500	+67.0
10. Shelter homes for youth	151,100	141,700	151,619	+6.4
11. Staff for special projects	504,200	540,400	567,400	+4.8
12. Temporary foster care project	306,100	309,000	324,500	+4.8
13. COPE[1]	267,500	291,600	0	−100.0
14. MISTY	428,000	458,000	0	−100.0
15. Community centers	1,962,029	1,837,700	0	[2] −100.0
16. Delinquency assistance fund	0	0	2,300,000	+100.0
17. Runaway services	3,390,962	2,292,400	2,454,300	+6.6
18. OCYS demonstration project (diversion)	543,929	480,000	507,800	+5.5
19. Intercountry adoptions	543,874	591,300	0	−100.0
20. School youth advocacy	176,540	160,500	171,700	+6.6
21. Violent juvenile offender project	0	0	400,000	+100.0

[1] Funding for COPE, MISTY, and the community centers will be transferred to the new program delinquency assistance fund. Funds will be allocated to DSS local offices for youth employment.

[2] −$287,800.

Note: Col. A—1981 lists actual allocated fund amounts.
Col. B—1983 lists allocated fund amounts remaining after Executive order reductions and supplemental appropriations.
Col. C—1983 lists recommended funding and reflects restoration in most instances of funding to the original 1982 level.

PREPARED STATEMENT OF BRENDA L. RUSSELL, LEGISLATIVE ANALYST, CHILD WELFARE LEAGUE OF AMERICA, INC.

Mr. Chairman, I am Brenda L. Russell, Legislative Analyst for the Child Welfare League of America's Center for Governmental Affairs. As an organization that is dedicated to the improvement of the lives of children and their families, we are pleased to be invited to speak to you today regarding various block grant issues of concern to us, issues that affect the quality of life for the vulnerable children, youth and families of America.

The Child Welfare League of America was established at the request of the delegates to the White House Conference on Children in 1920. It was the first, and continues to be, the only national, not-for-profit, voluntary membership organization which sets standards for child welfare services in the United States. The League is a privately supported organization comprised of 400 child welfare agencies in North America whose efforts are directed to the improvement of care and services for children. Our agencies provide adoption services, day care, day treatment, foster care, residential treatment, maternity home care, protective services, homemaker services, emergency shelter care, services for children in their own homes and services for children and families under stress. The agencies affiliated with the League include all religious groups as well as non-sectarian public and private nonprofit agencies. Through the Office of Regional, Provincial and State Child Care Associations, the Child Welfare League also represents 1,600 child care agencies affiliated with 27 State Child Care Associations. This means that members and affiliated agencies of the League serve several million children nationally. It also means we speak for over 6,000 volunteer board members and several thousand more direct service volunteers. This then is the uniqueness of CWLA: we are not only an advocacy organization, but our agencies serve children and their families in every state in the country. In other words, for the past sixty-two years our business has been serving children.

We are pleased and grateful that you, Senator Durenberger, are also concerned about the health and welfare of our nation's children, that you recognize the importance of protecting our nation's future by providing adequate care for our children today. We applaud you for providing this forum to begin to examine the issues before us now: we say "begin" not because this is the first forum that you have provided, but because issues of national importance require detailed analysis and planning before major shifts in public policy occur. We do hope this is the start of a thoughtful process.

While we would relish the opportunity to engage the issue of new federalism from the perspective of what the appropriate role of each level of government is in a rational and planned manner, the current economic conditions and political climate have prevented that from occurring. We know of your genuine concern for rational planning and hope you will do everything in your power to see that the action is slowed down enough so that a deliberative process can take place. One of the first tasks in that process is to look at what has already been enacted, how it has been implemented, and see what we can learn from that experience before we proceed any further.

The League shares your concern that protections for the beneficiaries of programs are lacking in the nine block grants enacted last year in the Omnibus Budget Reconciliation Act. We do believe it is a step forward to mandate certain protections for citizens in all block grants. However, there are several problematic areas in the draft Uniform Block Grant Management Act on which we are pleased to have the opportunity to provide constructive comments.

We recommend that any uniform block grant language drafted address the basic requirements necessary for the input of citizens and the effectiveness of the programs.

Among others, the following are a number of critical principles that must be addressed as you consider block grant programs, in order to protect the beneficiaries of these programs and be responsible to the taxpayers who enable these programs to be available:

- Paramount is the necessity for adequate and stable federal funding to meet the needs of our vulnerable citizens, and to allow a rational planning process to occur so that resources are expended in the most efficient manner.
- Self-determination for the citizenry is involved. In order to guarantee that block grant programs are indeed more in touch with the needs of state and local populations, public participation must be built into the system at all levels. If the government that is closest to the people at all levels is to be truly responsive to local needs, clear paths into the decision-making process are a minimum requirement. Accountability to the citizenry to maintain program integrity requires adequate records, auditing, and oversight.
- Federal oversight and enforcement of basic human rights and protections such as civil rights and due process for beneficiaries must be provided.
- There needs to be a process at the local level which ensures that scarce resources are targeted to those most in need.
- Uniform language should not preclude inclusion of additional safeguards in any block grant program, nor supercede safeguards presently in force.

The League is only one of many, many concerned organizations and citizens that believe these principles are an absolutely necessary requirement for human service programs. We are active participants in the Coalition on Block Grants and Human Needs, and as such worked diligently to secure some citizen protections through the provisions of Title XVII of the Omnibus Budget Reconciliation Act last year. The League still believes that the citizen partipation in the planning process of that Title is critical to effective planning and service delivery. The League maintains its strong commitment to the improvement of care and services for our nation's vulnerable children, youth and their families, and we welcome the opportunity to work with you and your staff in any way possible in meeting that goal.

CWLA has also participated in the Grants and Contracts Task Force for many years. The Task Force is composed of national voluntary nonprofit organizations concerned with common issues which the voluntary sector encounters with regard to government grants and contracts. Currently the Task Force is analyzing the draft Uniform Block Grant Management Act. The specific concerns we have regarding the language of the proposed Act are being drafted and will be submitted to the Subcommittee on behalf of the League and other members of the Task Force. The work is almost complete, and we request that the hearing record remain open in order to include this important assessment.

Of the nine block grants enacted under the Reconciliation Act last year, we are the most familiar with the Title XX Social Services Block Grant. In fact the Hecht Institute for State Child Welfare Planning, a division of the League, was created in 1975 to assist in the implementation of the original Title XX Block Grant. We have extensive experience with this block grant and if there is one thing we can testify to, it is that you simply cannot make quick turnarounds of a major nature, as occurred during the 1981 Reconciliation process. No responsible business would implement major redirections without adequate assessment, planning and lead time. Such shifts can hurt children.

When the original Title XX was created as part of President Nixon's "New Federalism", social services programs formerly under AFDC and Aid to the Aging, Blind, and Disabled (Titles I, IV-A, X, XIV and XVI of the Social Security Act) were consolidated in a single block grant to the states, with a federal funding level of $2.5 billion. This block grant was created after several years of work by service providers, the voluntary sector, public administrators, the states and the Administration.

There was the opportunity for a great deal of give and take among those concerned through a deliberative process. The result was a good balance between flexibility, local control, and yet enough program structure to ensure protections for the beneficiaries and that those most in need would receive the services. Social services were separated from income maintenance and assigned a primary goal of reducing dependency and promoting self-sufficiency. States were given responsibility for determining their own social services needs and for allocating resources to provide social services, with a condition that there be broad public participation in the decision-making process.

Citizen involvement included needs assessment, a state social services plan that included a public comment process, public hearings and advisory councils to ensure voluntary citizen access in the decision-making process. Yet even with this deliberative process throughout, it took two to three years before the states really had their programs in place. Much confusion accompanied the major programmatic changes.

Now is the time to stand back and take a thorough look at what works or doesn't, and how or why. Looking historically at the Title XX program is useful and provides a lesson we should not ignore. We should be strengthening our successful programs instead of stripping them of safeguards.

Under the 1981 Omnibus Budget Reconciliation Act, Title XX was amended to incorporate state and local training and social services for the territories into a new block grant program to the states. Critical provisions developed over time such as the state matching requirement and the state planning and public participation requirement were wiped out. Funding was cut by 23 percent (almost $700 million) for FY 1982. The current funding level for FY 1982 is $2.4 billion as compared to the $3.099 billion it would have been before Reconciliation.

A major concern of CWLA is that the block granting which took place last year really amounted to cost-cutting and cost-shifting from the federal government to the states under the guise of increased flexibility. Title XX was already a block grant program that the states had been administering for over six years. The "increased flexibility" (loss of citizen protections) given them under Reconciliation did little to assist in meeting increased demands for services with dramatically reduced funding.

CWLA is in a position to make some partial assessments about the implementation of Title XX since last fall. CWLA's Child Welfare Planning Notes is a newsletter which reports on the latest news from Washington and the states. We maintain regular contact with public and voluntary nonprofit agencies throughout the country in order to share information in a timely fashion, and hopefully, to "prevent the wheel from being reinvented" on a state-by-state basis. Second, through our State Child Care Associations, we are provided with information on what is occurring at the State and local level on a regular basis. Finally, CWLA is conducting a "Survey of Impact of Reduced Public Funding of Human Services and Local Agencies," otherwise known as the "Human Fact Sheet." The League worked in conjunction with the Council of Jewish Federations, the Family Service Association, and the National Conference of Catholic Charities to develop the survey form. The responses are coming in and the results are being tallied. We would now like to share information gleaned from these sources with the Subcommittee, and also briefly run through the results of the American Public Welfare Association's report, "A Study of the Implementation of the Social Service Block Grant in State Human Service Agencies with a Primary Focus on Ten Key Issue Areas."

CWLA found that the way in which states dealt with the block grants varied on a state-by-state basis. Our "Human Fact Sheet" survey, which went to public and voluntary nonprofit CWLA members and affiliates, showed that out of a total of 78 voluntary agency respondents to the question on public participation, 59 had some means of input to the state's process, and 18 had none. Most importantly, there were a variety of methods used for the input including: the establishment of an association (child care association, block grant coalition, fair budget coalition, etc.) at the state level, coalition activities, participation in formal advisory committees, and testifying in state hearings. None of our respondents had any contact with the Governor's office. Finally, 40 respondents utilized more than one mechanism for input.

We are hearing overwhelmingly from the states with regard to Title XX that it is not the block grant per se but the cuts in funding that are hurting states from both a planning and service standpoint. This was also the bottom line of APWA's survey. Some additional themes were regularly reported to us that show the following trends emerging in the states.

- States are complaining about the difficulty in planning when faced with the uncertainty of federal funding levels. In order for states to plan their programs in a responsible manner, stabilization of federal funding is needed.

- States are unable to deal with the block grants as if they existed in a vacuum. For example, increased demand for the services offered under Title XX has been experienced now that the impact of reductions in other programs like AFDC, Medicaid, food stamps, housing, CETA, and low-income home energy assistance is being felt. Social services and prevention activity give way to basic survival issues:
  - For instance, a child-serving agency in Oklahoma is seeing children whose parents are able to parent properly, but who simply cannot feed their children.
  - New York is using Title XX monies to provide housing for indigent clients under the rubric of prevention services.
  - Day care programs are being curtailed in most states to pay for more basic, sustenance services.

For state human service agencies, the issue is money, not New Federalism. So concludes APWA's report, submitted to the Department of Health and Human Services. The states were polled to obtain information about how they are dealing with issues related to the implementation of the new social services block grant. Thirty-three states completed the questionnaire. The study reports some fascinating, if random, facts:

- California has reduced the number of social service programs by 40 percent and has modified 30 percent of those remaining.
- Idaho has identified three major service areas and plans to eliminate one in its entirety rather than reduce services in each.
- Providers in West Virginia will be asked to sustain cuts proportionate to departmental cuts.
- In Alabama, funds used to purchase services are being shifted to support in-house departmental programs.
- Many states see a potential for savings in public participation costs due to the easing of federal regulations in this area.
- Overwhelmingly states agree that training and staff development activities will be seriously curtailed.
- New York will explore reintegration of income maintenance and social service activities.
- Colorado and Florida are considering increased utilization of contractual service providers.

- On the other hand, Kentucky and North Carolina are cancelling many service contracts.

Random facts notwithstanding, the study's conclusion is clear:

> "The most common and expected trend that appears in the state responses is the emphasis on how the states are absorbing the budget cuts in social services. Few comments are specifically directed at the new block grant mechanism itself."

- The American Public Welfare Association study found that some states will increase their use of purchase of service contracts while other states will decrease use of contractual services. But overwhelmingly the states reported on in our newsletter have said they are reducing purchase of service contracts. For example:

  -- Hennepin County, Minnesota reports reduced options: although private providers may be more cost effective, the county has a union contract which says it may not lay off state personnel in favor of purchased services from private providers.

  -- In Memphis, Tennessee, dollars for contact services with private nonprofit agencies were cut $2 million as a result of cuts in Title XX. As a result, 782 people lost services, most of whom were children. For example, the Porter-Leath Children's Center in Memphis will serve 50 fewer children in its Protective Service Emergency Shelter (for abused, neglected and dependent children). Porter-Leath reports that kids and the working poor are hit hardest.

- In almost all states, training and staff development have been the first to be cut out as a result of the Title XX Block Grant and funding cuts. Loss of these program components will affect the quality of services and therefore the efficacy of the program.

- In terms of service, an overwhelming number of states report that their preventive service components have been cut as a result of cuts in Title XX. An overwhelming number report cuts in day care, cuts in family support services, cuts in foster care services, and cuts in protective services. As a result of the Title XX Block Grant and funding cuts:

  -- Maryland has reduced foster care staffing and has reduced services to children leaving foster care. Maryland reports that the heaviest impact has been on the preventive component of their services.

  -- The recently completed National Study of the Incidence and Severity of Child Abuse and Neglect projects an incidence rate of approximately one million children who are seriously abused or neglected in this country each year. The number of these children who are reported to public child protection agencies for investigation and child protection action continues to increase, with the rate of substantiated cases increasing over

17 percent in the last two reporting years. The vast majority of protective services are provided for through the Title XX program.

-- Ohio has reduced foster family special services for children, as well as special services to the blind and communicatively disabled, psychotherapeutic services, and developmental services for children. Day care was cut by 15 percent in Ohio.

-- In Washington state, the Bureau of Children's Services reports cuts in family support services, seasonal day care for farmworker families and foster care service funds.

-- In Sacramento County, California, staffing is down 43 percent; preventive services are out; even the highest priority protective services have been hurt; and child day care licensing and foster home licensing staffs were cut by 50 percent.

-- Colorado has dropped its child abuse service component for families at risk, and now service will be provided only after abuse has occurred. In fact, there is a policy now that any child 12 years or older who was voluntarily placed will automatically be returned to the parents -- regardless of the home situation. Colorado has also had to cut day care, homemaker services for the elderly, and WIN. Ten private agencies have closed in Colorado.

-- Texas, like Colorado, has eliminated services to families at high risk of abuse and neglect (i.e., prevention). It has also had to cut day care (there are now 8,816 fewer children in day care) and has eliminated services to unmarried and school-age parents at risk of abuse and neglect.

-- In Alabama, 2,000 children lost day care services. Preventive services and family counseling services were also cut.

- As a result of cutbacks in staff and cuts in the above kinds of services, we may see the following trends: longer stays in foster care, less movement of children into permanent homes, inability to respond to reported incidents of child abuse and increased incidences of child abuse.

- Overwhelmingly, states say the real impact will be felt in FY 1983 and more so, if additional cuts in Title XX go through. Some states such as New York and New Hampshire see themselves having to get a release from their statutory responsibilities if additional cuts in Title XX are enacted.

As you can see, some of the most cost-effective services are being cut, such as protective services in (hopefully) non-life endangering situations, preplacement preventive services, and family strengthening services. This is occurring not because the decision makers are heartless, but because they are engaging in "damage control" and "survival techniques." These types of cost-effective services must give way in order to assist those in more dangerous circumstances. The major dislocations that have occurred in the Title XX program -- a block grant that was "block granted" -- give only sample of what may have happened in categorical programs that were turned into block grants. The transformation of categoricals to block grants is a major policy shift in and of itself. When that is piggy-backed onto drastic funding reductions, with limited transition time and protections for citizens, confusion and waste result -- neither of which is a goal for sound public policy.

The Child Welfare League believes that a mix of funding sources and program structures is the best way to meet the needs of our vulnerable children, youth and families. For example, the original Title XX program allowed the states complete flexibility in determining what constituted a social service and which services to provide. That allowed the flexibility to create new service technologies within the existing social service structure. Some very creative programs were developed in that context.

Yet there are other areas of service delivery that experience has demonstrated require specificity. The Adoption Assistance and Child Welfare Act, P.L. 96-272, is just such a program. After five years of intensive work and overwhelming documentation as to the need, Congress enacted this family strengthening law in 1980. The cuts in Title XX coupled with the threatened repeal of this law mean that dollars for system reform and family reunification will, of necessity, be used for sheer survival.

The authorization level for the block grant would be only $380 million for FY 1983 and thereafter, a sum that represents a 25 percent funding cut below actual FY 1982 levels and a 47 percent reduction from the full implementation funding level as recommended in the law. Repeal of this law will create increased demand for Title XX dollars.

The League is opposed to this block grant proposal, as we know children will not be well served by removing the specificity which took five years to be crafted into this legislation. A strong federal role is necessary in this instance to ensure that the child welfare system receives the systematic improvements it needs to enable it to adequately care for neglected, abandoned and abused children and their families. Joyce Black, President of the CWLA Board of Directors, presented extensive testimony on behalf of the League on March 16, 1982 before the Senate Finance Committee regarding our intense support for this cost-effective legislation. Therefore we will not present you with the detailed analysis at this time of why a block grant would be inappropriate. This law, being proposed for elimination by the Administration, is a classic example of the lack of assessment and thoughtful process that is absolutely necessary if new federalism is seriously addressed and programs are appropriately sorted out.

We would be pleased to provide any additional information that would be of assistance to you in your work, and we would like to thank you again for your willingness to take the time and effort to include the voluntary sector and other concerned organizations and citizens in the discussion of these critical public policy issues.

Senator DURENBERGER. Our next witness is Senator Paul Hess, chairman of the Kansas Senate Committee on Ways and Means. He will testify today on behalf of the National Conference of State Legislatures.

Senator, we are pleased to have you with us today, all the way from the State of Kansas. We are looking forward to your testimony on behalf of the National Conference of State Legislatures and, in particular, on the subject of block grant implementation.

TESTIMONY OF PAUL HESS, KANSAS STATE SENATOR AND CHAIRMAN OF THE KANSAS SENATE COMMITTEE ON WAYS AND MEANS, ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES, ACCOMPANIED BY GARY FALLE, STAFF ASSOCIATE, NCSL

Mr. HESS. Mr. Chairman, I am delighted to be here to spend just a few minutes with you and the subcommittee. I appreciate the opportunity. I am here to represent the National Conference of State Legislatures. I am going to simply highlight certain words and phrases in the testimony and go through the 11 pages very quickly. Then I will make some personal remarks.

Mr. Chairman, I want to assure you of something that you already know. State legislators are warm, compassionate, responsive, intelligent, capable individuals just as Members of the U.S. Senate and the U.S. House of Representatives are. We are aware of our system of government.

That not only includes the Federal Government, but also the local units of government, which, I might add, we create cities and counties. I want to assure not only you, Mr. Chairman, but those individuals and groups that have been represented this morning to whom I have listened. State legislatures are not in the backwaters of American policies. We do have computers, staff, and, more important, the will to make the New Federalism work. We are willing to accept that responsibility.

I want to say that I have served in the legislature for 12 years. I was one of those kids who got elected at 21, at the height of the Vietnam war. I have grown and matured through the process. It seems to me that, in my present position as chairman of the Senate Ways and Means Committee in Kansas—a better name for that would be appropriations—I feel like an umpire at a World Series game. It is extremely delightful for interest groups to realize that all roads do not lead to Washington. There are roads to St. Paul, Topeka, Sacramento, Dover, Albany, and other State capitals in the United States.

Mr. Chairman, before I walk you through our statement—so that we have some specifics; then I will go through the statement—let me simply say that in Kansas, concerning the human services area, with which most of the block grants are involved, we made up two-thirds of those funds that were lost. We took that responsibility. We didn't make all of them up. In the area of day care, we replaced every dollar in the State of Kansas. In some other areas, we decided that those dollars could be lost and could be better spent.

I want to compliment you and this subcommittee for this sorting-out, the turnback process as you call it.

The National Conference of State Legislatures has long believed that the Federal grants-in-aid system needs a serious overhaul. We are not here lamenting the cuts. We accept them. We don't agree with all of them. We simply want increased flexibility in the use of funds at the State level so that we can target and have more efficient use of those funds.

Let me just touch on the effects of the recently enacted block grants. We applaud the intent. We are concerned about the timing—you mentioned that a moment ago better than I can—of the reconciliation process in August and then of the continuing resolutions. We had a great amount of difficulty planning. Believe it or not, it still worked in spite of that. The only thing that we regret is that we did not have the opportunity to have more time to really get into the different block grants. Many legislatures were out of session.

I also want to say, concerning the legislation you are working on, we feel very strongly that there should be as few requirements as possible. In other words, take the strings off the money and give us that management flexibility with the funds.

On the top of page 3 of my statement you can see that most States did accept or did participate with these particular block grants. You can see some of the processes that were used. In the State of Montana, they had to have a special session; and in Iowa, they set up a special fund. In Kansas, we used our State Finance Council, which is chaired by the Governor and has eight members of the legislature on it, to deal with the block grants. The block grants came down in the fall, when we were out of session.

Mr. Chairman, let me go over our five key points. I will do this in closing. We have encountered several problems. One is insufficient leadtime for legislative review. We document that on page 6 of my statement.

The second item is, "Please, take the strings off of the grants." We feel that we have the ability to manage them. We have documented on pages 7 and 8 the different strings there are under the different block grants. I won't read all of that to you today, but we feel that they tie our hands. Certainly, they are probably in response to the fears that have been expressed in this room: That you cannot trust those rascals in the State capitals because they will not allocate those moneys where they are needed. Mr. Chairman, I can assure you that, in most cases—although, you can cite some horror stories—that is not correct.

The third point concerns the cuts in the block grants. Certainly, we are not here to chastise you or the Congress for the cuts. We accept them. We simply hope that if additional cuts are made, we will have sufficient leadtime to respond.

Our fourth point deals with the uncertainty of Federal funding levels. I don't need to dwell on that. Fifth is the State matching requirements. We feel that in the maternal and child health, primary care, and community development block grants those State matching requirements really are not necessary. It indicates, I believe, that you feel we will not put sufficient State moneys into those programs. In most cases, we are doing that.

Mr. Chairman, in summary, I want to compliment you on the Uniform Block Grant Management Act that you are working on, and which is really the reason for these hearings. We strongly oppose the pass-through. We have established, I believe, many healthy relationships between State legislatures and local units of government. I think that the Greek Cities-State concept which has developed in this country is not a healthy concept. We have 50 sovereign States; and that is where the buck really should stop. We should have this kind of dialog with the local units of government at the State level.

I want to thank you for this opportunity. I will submit myself at this time to any questions.

Senator **Durenberger.** Thank you very much for your testimony. What do I do about the fact that, an hour ago, the National Association of Counties and the U.S. Conference of Mayors were here basically disagreeing with what you have just said about the warm, wonderful, compassionate relationships that exist between the State and local governments in this country?

In a couple of questions, I tried to explore with them the problems in the relationship. Were they problems of inadequate resources, or problems that States have had, for the last 10 or 12 years, of just being a funnel through which Federal money pours into local government? Or, was it an issue of the States—particularly with regard to project grants—just not ever having been in that business, so being inept in this brief period of time they have had to demonstrate an ability in that area?

I would have to admit that, considering the short time we have had to demonstrate these new relationships between State and local governments in these blocked areas, it may be the right of the national associations to say, "The proof still is in the pudding, and we haven't seen the pudding yet." Is that correct?

Mr. Hess. Mr. Chairman, I certainly don't want to imply that everything is sweetness and light. However, I believe that the process we are going through is a healthy one. I think the only way you are going to measure whether or not it works is to allow a flexible block grant program to continue and expand. I think we will be worthy of the confidence you have, simply by taking these steps. I don't want to say that there won't be some serious disagreements and problems.

Let me say two things. One is, every State legislature in the United States, to the best of my knowledge, is apportioned on the basis of one person and one vote because of *Baker* v. *Carr* in the early 1960's. So to say that the urban centers are not represented—I note that in your State, in the Minneapolis-St. Paul area, they have proportional representation in the legislature. In Wichita, Topeka, and Kansas City in my State of Kansas their representation in the legislature is nearly 45 percent.

I have one of the most urban delegations in a rural State. I chair the Appropriations Committee. I can assure you that the cities and counties are not bypassed. It may occur in some States but, by and large, I think that it is a myth which is continually perpetuated by local units of government. It is easier to come straight to Senator Durenberger and ask for money than it is to work with the 6 State senators and the 18 representatives in Wichita and work out our problems back home.

I feel very strongly about that. That is the position of our association. We are thoughtful about it. We are not, in any way, trying to be arrogant or saying that we have all knowledge. I think it is a partnership. We just want the opportunity to make it work. I think we will be responsive.

Senator Durenberger. The concern that was expressed, as I read it, about the adequacy of urban representation goes beyond the issue of whether or not we have proportional representation. It probably recognizes the reality that, in some of the major metropolitan areas in our country, the core city—the Detroit or the Chicago—is underrepresented when it comes to making decisions which affect the unique fiscal and human problems of that city. The metropolitan area may be well represented vis-a-vis the rural area, but those suburban interests usually are quite different from the core city—although they shouldn't be different. There wouldn't be any suburbs if there weren't a core city.

One of the frustrations people will experience for a couple of years in this whole process is with the need for State legislatures to come to grips with metropolitan area representation. They need to recognize some of the common concerns that suburban and urban officials need to have for the good of the larger area. That is probably one of the things that concerns people who have to serve the needs of residents of a core city in a large metropolitan area.

I wanted to ask you about one of the blocks. You indicated some experience in Kansas with the Low Income Energy Assistance block grant. That is one of the blocks in which we have permitted transferability up to 10 percent.

Earlier this morning, Dr. Rubin indicated that 33 States pulled out $92 million of Low Income Energy Assistance for another program. Your testimony indicated that Kansas was one of those States. You moved it out for title XX which you felt was a higher priority need. Was there much public opposition in Kansas to this transfer?

Mr. Hess. Senator, there was not. I think that the title XX constituencies had much more clout in the legislature and convinced us that those were the more primary needs.

I also think the legislature feels that the whole question of energy is one area in which we are going to have to begin to assume more of a role in terms of funding. In response to that, in our State—and I know in a couple of other States—we are getting a little tired of simply pouring $16 million of your money into houses that leak—in other words, that don't have insulation.

We did three things. We diverted money to title XX; No. 2, we took hundreds of thousands of dollars to our energy office from the United States Department of Energy and said, "We are tired of spending it on all these demonstration projects. We are going to give the money to our Department of Social and Rehabilitation Services and use it for energy audits and weatherization." No. 3, we are going to deal with the energy area not through our State structures but with Federal moneys which will be supplemented with State money.

What I am trying to say is that this is an illustration of how we took the flexibility you gave us and tailored it to a program—not the type of program that all the solar people wanted or the oil and gas industry may have wanted, but where we thought the greatest needs were in the State. We are dealing with the elderly and the poor in terms of their homes. We thought it was better and cost-wise to try to take some positive steps, and to link energy audits up with weatherization, with money to pay utility bills. We will still be able to divert some of it to the title XX area.

Senator Durenberger. I think this is an initiative we are going to have to address—if not this year, then next year.

When we designed the Low Income Energy Assistance program, it was to recognize the economic burden that was being put on people in this country by decontrol. We decided it was very, very important to go through decontrol. We had made mistakes 10 years ago in putting controls on oil. While we recognized the reality of the disruption, we set up a program that would return the money, for 3 years, to some of the folks who were paying higher heating or air-conditioning bills. Now, we have gotten ourselves saddled with some form of a welfare program.

This Congress, despite the efforts of some of us, has been very reticent to provide flexibility for weatherization, even though it makes so much commonsense. I can't understand why we resist it. It seems as though we are now trapped with a new welfare program. As long as prices continue to rise in the energy area—as I'm sure they will—and we don't adequately address some of the other income maintenance programs, we will put ourselves in kind of a box down here. I think that it will be very, very difficult to get out of it.

We have put that 10-percent transfer into the block grant, and 33 States have used it.

Then, in January, we did a supplemental and said, "No, you can't transfer it." In other words, we said to 33 States, "We are smarter than you are." It is just getting to the point where somebody is going to have to give us—you Senators and others who are involved in this process—some advice on where the most appropriate needs can be met with that portion of the windfall profits tax. If you have any more advice for us, other than what you have already said, you might as well get it in the record.

Mr. HESS. Senator, I think that trying to respond by illustration sometimes maybe misses the key point. We deeply appreciate the confidence you have placed in us to make those kinds of tough decisions at the local level. To show you that we are wiley and cunning, in terms of what you may do in the future, we do recognize that you have gotten yourself into a box.

We get $16 million in Kansas for that program. To be honest with you, we have never been able to quite spend it all. That was one of the reasons we diverted 10 percent of it. We always had a little left over. However, we are afraid that, one of these days, the U.S. Congress may cut back on that money, although you have developed a consistency in our State. We are afraid that we will then be stuck with that social problem. However, we recognize that we have a responsibility to those people in need.

What we are doing is shoveling as much Federal dollars as we can into weatherizing homes. So, if in 1984 or 1986 you say "OK, States, you assume all or part of that responsibility," we will be putting money into homes that are insulated. We will not be losing so much of it out the window and out the roof. This may be a little simplistic, but we try to think ahead.

Senator DURENBERGER. That is an appropriate response. I regret that time doesn't permit more questions. I do appreciate your coming here on behalf of yourself and the National Conference of State Legislatures. Thank you.

Mr. HESS. Thank you.

[The prepared statement of Mr. Hess, with attachment, follows:]

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TESTIMONY
OF
SENATOR PAUL HESS
FOR THE KANSAS LEGISLATURE
ON BEHALF OF THE
NATIONAL CONFERENCE OF STATE LEGISLATURES
ON
BLOCK GRANT IMPLEMENTATION

9:30 AM
357 RUSSELL SENATE OFFICE BUILDING
MAY 11, 1982
SUBCOMMITTEE ON INTERGOVERNMENTAL
RELATIONS OF THE SENATE GOVERNMENTAL
AFFAIRS COMMITTEE

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I THANK YOU FOR THIS OPPORTUNITY TO ADDRESS THE IMPLEMENTATION OF BLOCK GRANTS AND TO BRING TO YOU NOT ONLY MY CONCERNS BUT ALSO THE CONCERNS AND SUGGESTIONS OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES (NCSL).

MY NAME IS PAUL HESS. I AM A MEMBER OF THE KANSAS SENATE AND SERVE AS CHAIRMAN OF THE SENATE WAYS AND MEANS COMMITTEE. I HAVE BEEN ACTIVE WITH THE NATIONAL CONFERENCE OF STATE LEGISLATURES FOR SEVERAL YEARS AND NOW SERVE ON THE GOVERNMENT OPERATIONS COMMITTEE.

NCSL HAS LONG SUPPORTED THE CONSOLIDATION OF FEDERAL GRANT-IN-AID PROGRAMS. THE CONFERENCE BELIEVES THAT INCREASED FLEXIBILITY IN THE USE OF FUNDS AT THE STATE LEVEL CAN LEAD TO BETTER TARGETING AND THUS MORE EFFICIENT USE OF FUNDS. CONSOLIDATION CAN ALSO GREATLY LESSEN ADMINSTRATIVE COSTS THROUGH SIMPLIFIED FUNDING, REPORTING AND AUDITING PROCEDURES.

IN MY TESTIMONY TODAY I WILL ATTEMPT TO OUTLINE THE EFFECTS OF THE RECENTLY ENACTED BLOCK GRANTS, INCLUDING STATE IMPLEMENTATION PROCEDURES AND PROVIDE SUGGESTIONS FOR IMPROVEMENTS TO BE MADE TO EXISTING BLOCK GRANTS AND TO ANY ADDITIONAL ONES THAT MAY BE PROPOSED BY REVIEWING THE PROBLEMS ENCOUNTERED BY STATE LEGISLATURES WITH THE FIRST ROUND OF NEW BLOCK GRANTS. A GREAT DEAL OF MY TESTIMONY IS FROM A STUDY NCSL DID IN FEBRUARY OF THIS YEAR ENTITLED, "BLOCK GRANTS: A NEW CHANCE FOR STATE LEGISLATURES TO OVERSEE FEDERAL FUNDS." I HAVE COPIES OF THIS STUDY WITH ME AND WILL MAKE IT AVAILABLE TO THE SUBCOMMITTEE MEMBERS.

WITH THE PROLIFERATION OF NARROWLY DEFINED CATEGORICAL GRANTS, STATE AND LOCAL GOVERNMENTS HAVE BECOME DISENCHANTED WITH THE FEDERAL GRANT-IN-AID SYSTEM. THESE CATEGORICAL GRANTS LACK THE FLEXIBILITY NEEDED BY STATES TO TAILOR PROGRAMS FOR THEIR BEST USE; THEY OFTEN INCLUDE ONEROUS BUREAUCRATIC REQUIREMENT FOR PROGRAM ADMINISTRATION. THESE GRANTS ALSO HAVE THE TENDENCY TO REMOVE THE AUTHORITY FOR ESTABLISHING PROGRAM PRIORITIES FROM STATE LEGISLATURES BY MAKING AGENCY GRANTEES MORE ACCOUNTABLE TO WASHINGTON THAN TO STATE AND LOCALLY ELECTED OFFICIALS. STATE LEGISLATURES HAVE FOUND THEMSELVES BY-PASSED BY STATE AGENCIES AND LOCAL GOVERNMENTS DIRECTLY APPLYING TO THE FEDERAL GOVERNMENT FOR AID. DUE TO THE REQUIREMENTS ASSOCIATED WITH MANY OF THESE CATEGORICAL GRANTS, THESE FEDERAL FUNDS HAVE FUNNELLED THROUGH STATE BUDGETS WITHOUT A GREAT DEAL OF STATE DISCRETION. IDEALLY, FROM THE VIEW OF STATE AND LOCAL GOVERNMENTS, THE BLOCK GRANTS FROM THE FEDERAL GOVERNMENT SHOULD ATTACH FEW REQUIREMENTS OR "STRINGS" TO THE MONEY SO THAT STATES WOULD BE GIVEN WIDE DISCRETION IN FUND DISTRIBUTION.

THE BLOCK GRANTS IN FY 1982 GAVE STATE LEGISLATURES A NEW OPPORTUNITY TO APPROPRIATE FEDERAL FUNDS AND ASSURE PROPER EXPENDITURE. SOME STATE LEGISLATURES ALREADY HAD IN PLACE A MECHANISM FOR APPROPRIATING FEDERAL FUNDS AND BLOCK GRANT IMPLEMENTATION WAS EASILY ACCOMMODATED INTO THIS PROCESS. OTHER STATES ARE USING THE OPPORTUNITY PRESENTED BY BLOCK GRANTS TO TAKE THE FIRST STEP IN DEVELOPING OVERSIGHT OF THESE FUNDS.

THE MAJORITY OF STATES HAVE CHOSEN TO ADMINISTER THE BLOCK GRANTS THEMSELVES IN 1982 RATHER THAN HAVE THE FEDERAL AGENCIES WHICH WERE RESPONSIBLE FOR THE CATEGORICAL GRANTS MAINTAIN PRO-

GRAM MANAGEMENT. AS OF JANUARY 1, 1982, THE TALLY OF PARTICIPATING STATES WAS: 49 STATES ACCEPTED THE ALCOHOL, DRUG ABUSE AND MENTAL HEALTH BLOCK; 48 STATES TOOK OVER THE MATERNAL AND CHILD HEALTH SERVICES BLOCK; 48 STATES OPTED FOR THE PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK; AND ONLY 38 STATES ELECTED TO TAKE THE COMMUNITY SERVICES BLOCK GRANT.

DURING NOVEMBER 1981, NCSL SURVEYED THE 50 STATES TO FIND OUT WHAT MECHANISM THE STATE LEGISLATURES HAVE IN PLACE TO IMPLEMENT THE EXPENDITURE OF BLOCK GRANT FUNDS. THE SURVEY RESPONSES INDICATED THAT 23 STATES HAD INSTITUTED NEW OR SPECIAL LEGISLATIVE PROCEDURES TO DEAL WITH BLOCK GRANTS. ATTACHED TO MY STATEMENT IS A DESCRIPTION OF LEGISLATIVE PROCEDURES ADOPTED IN RESPONSE TO BLOCK GRANTS AND/OR FEDERAL FUND CUTBACKS, BY STATE, DURING 1981. MOST COMMONLY, STATES PASSED LEGISLATION REQUIRING SOME FORM OF LEGISLATIVE SIGN-OFF AS A PREREQUISITE TO THE EXPENDITURE OF BLOCK GRANT FUNDS. THE SURVEY ALSO SHOWED THAT THE FOLLOWING ARE THE MAJOR WAYS IN WHICH STATE LEGISLATURES ARE EXERCISING THEIR RESPONSIBILITIES OVER BLOCK GRANT DISTRIBUTIONS:

- THROUGH THE APPROPRIATION PROCESS;
- BY REQUIRING FORMAL LEGISLATIVE APPROVAL PRIOR TO EXPENDITURE OF BLOCK GRANT FUNDS;
- THROUGH INTERIM CONTROL OVER THE RECEIPT OR EXPENDITURE OF FEDERAL FUNDS;
- THROUGH LEGISLATIVE REVIEW OF FEDERAL GRANT APPLICATIONS; AND
- THROUGH SPECIAL LEGISLATIVE COMMITTEES SET UP TO MONITOR BLOCK GRANT IMPLEMENTATION.

I WOULD LIKE TO TAKE THIS TIME TO DESCRIBE A FEW OF THE STATE PROCEDURES USED TO IMPLEMENT BLOCK GRANT FUNDS. FOR THE MOST PART, STATE LEGISLATURES ARE USING THESE MECHANISMS AS A WAY TO DEVELOP STATE PROGRAM PRIORITIES AND BECOME MORE INVOLVED IN THE DISTRIBUTION OF ALL FUNDS AT THE STATE LEVEL.

IN MONTANA, DURING ITS LAST REGULAR SESSION, THE LEGISLATURE DIRECTED THAT ALL BLOCK GRANT FUNDS RECEIVED PRIOR TO JANUARY 3, 1983 REQUIRE A SPECIAL SESSION OF THE LEGISLATURE PRIOR TO EXPENDITURE. A SPECIAL SESSION WAS SUBSEQUENTLY HELD IN NOVEMBER OF 1981 AT WHICH TIME THE LEGISLATURE REVIEWED DETAILED BUDGET PLANS FOR THE EXPENDITURE OF BLOCK GRANT FUNDS AND APPROPRIATED BLOCK GRANTS ON AN AGENCY BASIS. IN ORDER TO MAINTAIN ITS CONTROL OVER ANY FURTHER BLOCK GRANTS THAT MIGHT BE AVAILABLE TO THE STATES BEFORE THE LEGISLATURE'S NEXT REGULAR SESSION, THE LEGISLATURE RECESSED RATHER THAN ADJOURNING AFTER ITS NOVEMBER SPECIAL SESSION.

IOWA PASSED LEGISLATION IN 1981 REQUIRING THAT BLOCK GRANTS BE DEPOSITED IN A SPECIAL FUND SUBJECT TO APPROPRIATION BY THE LEGISLATURE, AND THAT THE LEGISLATURE RECEIVE NOTIFICATION OF ALL APPLICATIONS FOR FEDERAL FUNDS AT LEAST 60 DAYS PRIOR TO SUBMISSION OF THE APPLICATION.

IN KANSAS, WHERE THE LEGISLATURE APPROPRIATES ALL FEDERAL FUNDS, WE USED OUR FINANCE COUNCIL (A JOINT LEGISLATIVE/EXECUTIVE BODY) TO REVIEW THE INITIAL PROPOSALS FOR THE BLOCK GRANTS. DURING THIS YEAR'S LEGISLATIVE SESSION, THE ENTIRE LEGISLATURE THROUGH THE APPROPRIATIONS PROCESS PARTICIPATED IN THE FULL REVIEW OF

OUR STATE AGENCY PROPOSALS FOR USE OF THE FUNDS. WHERE ALTERNATIVE OR DISCRETIONARY USES WERE AVAILABLE, WE MADE OUR BEST JUDGEMENT ON THE MOST EFFECTIVE AND EFFICIENT USE OF THE FUNDS. LET ME ADD THAT WITH THE PRESENT STATE OF THE ECONOMY AND THE SIZE OF THE REDUCTIONS IN FEDERAL AID, THERE WAS LITTLE DISCUSSION OF NEW PROGRAMS OR INNOVATIVE SERVICE DELIVERY. WE FOCUSED AS MUCH AS POSSIBLE ON TRYING TO REDUCE THE IMPACT OF THE FEDERAL CUTS. IN THE FUTURE, ESPECIALLY AS THE DISCRETION AVAILABLE TO US IN THE STATE EXPANDS, I'M CERTAIN THAT THESE WILL AGAIN BE POPULAR TOPICS FOR DEBATE.

KANSAS CHOSE TO PARTICIPATE IN ALL THE BLOCK GRANTS, AND WE ARE WORKING NOW TO ESTABLISH A PROGRAM FOR THE ADMINISTRATION OF THE CDBG SMALL CITIES BLOCK GRANT WHICH BECOMES AVAILABLE IN OCTOBER. WE'RE IN A HOLDING PATTERN AT PRESENT REGARDING THAT FINAL DECISION. WE DID OPT TO TRANSFER SOME OF THE BLOCK DOLLARS BECAUSE OF THE IMPORTANCE OF MANY OF THE TITLE XX PROGRAMS IN OUR STATE. WE ALSO SUPPLEMENTED THIS BLOCK GRANT WITH SOME STATE FUNDS.

BLOCK GRANTS AND STATE LEGISLATIVE INVOLVEMENT IN THEIR DISTRIBUTION HAS ALLEVIATED SOME OF THE PROBLEMS IN THE CURRENT GRANT-IN-AID SYSTEM. MOST OF THE IMPROVEMENTS ARE THE RESULT OF THE INCREASED FLEXIBILITY THAT THE BLOCK GRANTS PROVIDE. I BELIEVE THAT IT IS SAFE TO SAY THAT THE BLOCK GRANTS HAVE CREATED A GREATER DEGREE OF PARTICIPATION BY ALL GROUPS. THE BLOCKED PROGRAMS THAT HAD BEEN DIRECTED TO INDIVIDUAL CONSTITUENCIES ARE NOW RECEIVING ATTENTION AND REVIEW BY A VARIETY OF PEOPLE CONCERNED. THE PUBLIC, THE STATES' LEGISLATIVE AND EXECUTIVE BRANCHES AND LOCAL POLICY MAKERS ARE ALL BECOMING INVOLVED IN THE PROCESS.

BLOCK GRANTS ALSO PROVIDE A GREATER DEGREE OF ADMINISTRATIVE FLEXIBILITY. MOST STATES WILL BE ABLE TO STREAMLINE PROCEDURES AND REDUCE THE RED TAPE THAT WAS ASSOCIATED WITH MANY OF THE BLOCKED PROGRAMS. THIS ADMINISTRATIVE SIMPLIFICATION IS ONE OF THE MOST IMPORTANT POSITIVE RESULTS OF THE BLOCK GRANTS.

ANOTHER OUTCOME OF BLOCK GRANTS IS THE IMPROVEMENT IN EACH STATE'S CAPABILITY TO BETTER COORDINATE FEDERAL, STATE AND LOCAL DOLLARS. IT PROVIDES THE STATES WITH A MEANS TO INSURE THAT DOLLARS ARE BEING SPENT EFFECTIVELY AND PROGRAMS AND POLICIES ARE NOT BEING DUPLICATED.

WHILE NCSL ENDORSES THE BLOCK GRANT APPROACH, STATE LEGISLATURES HAVE ENCOUNTERED SEVERAL PROBLEMS WITH THE FIRST ROUND OF NEW BLOCK GRANTS. I WOULD LIKE TO SPEND SOME TIME DISCUSSING THOSE PROBLEMS.

FIRST IS INSUFFICIENT LEAD TIME FOR LEGISLATIVE REVIEW AND APPROPRIATION. SIX BLOCK GRANTS WERE MADE AVAILABLE FOR STATE ADMINISTRATION ON OCTOBER 1, 1981, THE BEGINNING OF THE FEDERAL FISCAL YEAR. MOST STATE LEGISLATURES WERE NOT IN SESSION AT THAT TIME, AND, IN FACT, WERE WELL INTO THEIR FY 1982 FISCAL YEARS. FORTY-SIX STATES BEGIN THEIR FISCAL YEAR ON JULY 1; SEVEN STATE LEGISLATURES WITH BIENNIAL SESSIONS WERE NOT SCHEDULED TO CONVENE AGAIN UNTIL 1983. CONSEQUENTLY, STATE LEGISLATIVE INVOLVEMENT IN THE FIRST ROUND OF STATE ADMINISTRATION OF THE NEW BLOCK GRANTS HAS BEEN DIFFICULT.

Second are the "strings" attached to the block grants. Block grants were intended to take the form of flexible federal aid with the understanding that states could distribute the funds according to program priorities set by the states. The final legislative version attached numerous strings to some of the blocks--maintaining their categorical nature. For example:

- The Alcohol, Drug Abuse and Mental Health Services Block Grant, required that every community mental health center that was funded in FY 1980 also receive block grant funding in FY 1982. In addition, the federal regulation require that 35 percent of the funds received by the state be earmarked for alcoholism programs and 35 percent for drug abuse programs. The remaining funds are discretionary.

- The Preventive Health and Health Services Block Grant mandates state funding of all FY 1983 grantees that provide emergency medical services. The grant also stipulates that: FY 1982 state funding for the hypertension control program (one of the former categorical grants merged into this block) be at least 75 percent of the 1981 funding level; FY 1983 state funding at least 70 percent of the 1981 level; and FY1984 state funding at least 60 percent of the 1981 total.

- THE MATERNAL AND CHILD HEALTH BLOCK GRANT STIPULATES A SET ASIDE OF 15 PERCENT OF THE AMOUNT APPROPRIATED FOR 1982, AND 10-15 PERCENT FOR FY 1983 TO BE USED BY THE DEPARTMENT OF HEALTH AND HUMAN SERVICES FOR "SPECIAL PROJECTS." THESE ARE IDENTIFIED AS THE HEMOPHILIA AND GENETIC DISEASE PROGRAMS THAT WILL BE FUNDED DIRECTLY BY HHS. THE STATES COULD APPLY TO RECEIVE THE FUNDS BUT WOULD HAVE MINIMAL DISCRETION IN AWARDING THE SUBGRANTS.
- THE COMMUNITY SERVICES BLOCK GRANT REQUIRED THAT AT LEAST 90 PERCENT OF THE FUNDS BE DISTRIBUTED TO POLITICAL SUBDIVISIONS, NONPROFIT COMMUNITY ORGANIZATIONS OR MIGRANT AND SEASONAL FARM WORKER ORGANIZATIONS. FIVE PERCENT IS ALLOWED FOR PROGRAM TRANSFER AND 5 PERCENT IS ALLOWED FOR ADMINISTRATIVE EXPENSES.

- A MAXIMUM CAP OF 15 PERCENT IS SET FOR RESIDENTIAL WEATHERIZATION PROGRAMS FOR FUNDS RECEIVED THROUGH THE LOW INCOME ENERGY ASSISTANCE BLOCK GRANT.

- UNDER THE EDUCATION BLOCK, AT LEAST 80 PERCENT MUST BE COMMITTED TO THE LOCAL LEVEL AND 20 PERCENT CAN BE RESERVED FOR STATE USE.

BLOCK GRANTS WERE INITIALLY CREATED TO PROVIDE BROAD PROGRAM DISCRETION. IN MANY CASES THEY INSTEAD EARMARK THE FUNDING TO HIGHLY SPECIFIC PROGRAM AREAS.

THIRD ARE THE CUTS IN BLOCK GRANT FUNDING LEVELS. STATE GOVERNMENT LEADERS OFFERED TO ACCEPT SOME REDUCTIONS IN BLOCK GRANT FUNDING IN RETURN FOR GREATLY INCREASED STATE CONTROL OVER THE ALLOCATION OF FEDERAL FUNDS. IT WAS REASONED THAT SUCH A REDUCTION COULD BE ABSORBED BECAUSE OF SAVINGS ARISING FROM A REDUCTION IN THE FEDERAL BUREACRACY.

HOWEVER, STATES WERE GIVEN A 22.7 PERCENT REAL REDUCTION WHICH MEANT CUTTING INTO THE SUBSTANCE OF THE PROGRAMS. MOST STATES ARE CURRENTLY DEALING WITH BUDGET REDUCTIONS AND REVENUE SHORTFALLS AND ARE IN NO POSITION TO SUBSIDIZE PROGRAMS THAT WERE ORIGINALLY INITIATED ON THE FEDERAL LEVEL AND ARE NOW BEING SHIFTED TO THE STATES.

FOURTH IS THE UNCERTAINTY IN FEDERAL FUNDING LEVELS. WE DO NOT KNOW IF THE FY 1983 FEDERAL BUDGET WILL CONTAIN FURTHER REDUCTIONS IN BLOCK GRANT FUNDING. UNCERTAINTY ABOUT THE AMOUNT, TIMING AND AVAILABILITY OF FEDERAL FUNDS MAKE IT DIFFICULT FOR THE STATES TO PREPARE THEIR OWN BUDGETS.

DIFFERENT BLOCK GRANT FUNDING LEVELS HAVE APPEARED IN THE RECONCILIATION ACT THAT WAS PASSED IN AUGUST, AND THE FOUR CONTINUING RESOLUTIONS THAT WERE PASSED IN OCTOBER, NOVEMBER, DECEMBER, AND MARCH. THIS UNCERTAINTY AT THE FEDERAL LEVEL CREATES SERIOUS PLANNING PROBLEMS FOR THE STATES AND FORCES THEM TO GUESS AT WHAT THE FINAL FEDERAL AID FIGURES WILL BE. IDEALLY, THE STATES SHOULD BE ABLE TO HAVE FEDERAL BUDGET FIGURES AT LEAST ONE YEAR IN ADVANCE SO THAT THE STATES COULD ADAPT THEIR BUDGETS ACCORDINGLY.

THE CYCLE WILL BEGIN AGAIN THIS SUMMER AS MOST STATE LEGISLATURES COMPLETE THEIR FY 1983 BUDGET WORK BEFORE CONGRESS RELEASES THE FEDERAL FY 1983 BUDGET.

FIFTH ARE THE STATE MATCH REQUIREMENTS. THREE BLOCK GRANTS REQUIRE A STATE MATCH WHICH HAS BEEN A TYPICAL CHARACTERISTIC OF CATEGORICAL GRANTS. THE MATCH REQUIREMENTS DETRACT FROM THE INTENT OF BLOCK GRANTS AND CREATE ADDITIONAL FINANCIAL OBLIGATIONS FOR THE STATES. THE REQUIREMENTS ARE AS FOLLOWS:

- MATERNAL AND CHILD HEALTH: THE STATE MATCH REQUIREMENT IS THREE SEVENTHS OF THE FEDERAL FUNDING LEVEL.

- PRIMARY CARE: IN FY 1983, THE STATE MATCH IS 20 PERCENT OF THE FEDERAL FUNDING LEVEL AND IN FY 1984, THE STATE MATCH IS 33 PERCENT.

- COMMUNITY DEVELOPMENT: A STATE MATCH OF 10 PERCENT IS REQUIRED. (THIS MATCH CAN BE MADE WITH IN-KIND CONTRIBUTIONS.)

PRESIDENT REAGAN'S ORIGINAL OBJECTIVE IN HIS BLOCK GRANT PROPOSAL WAS TO CREATE A NEW NATIONAL PUBLIC POLICY INITIATIVE WHICH WOULD ALLOW STATES TO DIRECT THE ALLOCATION OF FEDERAL AID TO PROGRAMS IDENTIFIED BY THE STATES AS ESSENTIAL SERVICES. FOR THE STATES TO DO THIS, FUNDING FLEXIBILITY WAS A CRITICAL ELEMENT. THE BLOCK GRANT PROGRAM THAT EMERGED FROM CONGRESS FAILED TO PROVIDE THIS NEW PARTNERSHIP ROLE FOR STATE GOVERNMENTS. THE CONGRESS

INSISTED ON EARMARKING A LARGE PERCENTAGE OF THE BLOCK GRANT FUNDS WHICH LIMITED THE DISCRETIONARY POWERS THAT WERE TO BE TRANSFERRED TO THE STATES. NEVERTHELESS, BLOCK GRANTS ARE A STEP IN THE RIGHT DIRECTION IN SHIFTING RESPONSIBILITIES TO THE STATES.

MR.CHAIRMAN, IT IS MY UNDERSTANDING THAT YOUR STAFF AND THE NCSL STAFF HAVE BEEN WORKING ON MODEL BLOCK GRANT LEGISLATION TO BE INCLUDED IN EACH AND EVERY FUTURE BLOCK GRANT PROPOSAL. I ALSO UNDERSTAND THAT NCSL HAS ALREADY TESTIFIED BEFORE THE SUBCOMMITTEE WITH REGARD TO THIS LANGUAGE SO I WON'T COMMENT ON THE SPECIFICS. I WOULD JUST LIKE TO POINT OUT THAT REGULATIONS THAT ARE AS SIMPLE AS POSSIBLE ARE VERY IMPORTANT TO THE SUCCESS OF BLOCK GRANT IMPLEMENTATION. YOUR BOILER PLATE LANGUAGE CAN PROVIDE DIRECTION TO OTHER CONGRESSIONAL COMMITTEES IN ESTABLISHING THE NECESSARY BASIC RELATIONSHIPS THAT SHOULD EXIST IN ANY FEDERAL LEGISLATION CREATING BLOCK GRANTS AND CAN SET THE BASIC RESPONSIBILITIES AND UNIFORM REQUIREMENTS TO BE FOLLOWED BY THOSE INVOLVED. THE SUBCOMMITTEE CLEARLY DESERVES PRAISE FOR THESE EFFORTS.

IN CLOSING, I BELIEVE THAT A BLOCK GRANT APPROACH CAN PROVIDE STATES WITH THE FLEXIBILITY NEEDED TO PROVIDE SERVICES TO ITS CITIZENS IN A MORE EFFICIENT AND EFFECTIVE WAY. STATE LEGISLATIVE INVOLVEMENT IN THE PROCESS DEMONSTRATES THAT THE STATES ARE WILLING AND ABLE TO ACCEPT THIS GREATER RESPONSIBILITY. BLOCK GRANTS CAN PROVIDE STATES WITH A MEANS TO BETTER TARGET FUNDS TO WHERE THEY ARE MOST NEEDED, REDUCE DUPLICATION OF SERVICES AND ELIMINATE WASTE THROUGH SIMPLIFIED ADMINISTRATIVE PROCEDURES.

AGAIN, THANK YOU FOR THIS OPPORTUNITY TO TESTIFY AND I WOULD BE HAPPY TO RESPOND TO ANY QUESTIONS YOU MAY HAVE.

Description of Legislative Procedures Adopted in Response to Block Grants and/or Federal Fund Cutbacks, During 1981, By State

Alabama. During its 1981 session, the Alabama legislature passed two joint resolutions which dealt with block grants. SJR 19 created an interim legislative committee to study federal block grants and SJR 215 expanded the scope of one of the legislature's select joint committees, "to study the state medicaid programs so as to provide that said committee shall investigate and report on the impending impact of federal block grants to operate state health and welfare programs."

California. Legislation was passed in California which established a joint legislative-executive advisory committee for the allocation of block grant funds, not to go out of existence until July 1984.

Connecticut. To assure its involvement in the allocation of block grant funds, Connecticut passed PA 81-449 which stated that, during FY '81-82:

- State funds may not replace cut federal funds without legislative approval.
- Legislative approval is required before the expenditure of block grant funds.
- Any modification of funding for programs necessitated by reduction in federal funds can occur only if there is legislation that allows this.

Florida. During 1981, the Florida legislature formed a Select Committee on Federal Budget Cutbacks and developed a general policy statement and detailed guidelines which were used by the Senate Appropriations Committee in writing the 1982 Senate Appropriations Bill.

Illinois. A legislative resolution directed the Commission on Intergovernmental Cooperation to hold public hearings during this past summer to advise the legislature on block grant implementations. The Commission submitted a report to the General Assembly in October which made the following recommendations:

- Creating a trust fund for each block grant so that program growth or decline can be monitored and evaluated.
- Creating a permanent new Block Grant Board to address long-range programmatic and administrative oversight responsibilities of block grants.

- For the interim, until the oversight board is established, the Commission on Intergovernmental Cooperation will submit monthly reports to the General Assembly on the status of all block grants.

Until these recommendations are acted on by the legislature, block grants will be handled through the normal appropriations process.

Iowa. In passing SF 563, the Iowa legislature made clear its intention to take an active role in the control of federal block grant funds. SF 563 requires the following:

- Block grants must be deposited in a special fund subject to appropriation by the legislature.
- The governor must include with the budget a statement of federal funds not included in the budget for the previous biennium and anticipated block and categorical grants.
- The budget must indicate federal funds to be used, the programs to which they will apply, and the necessary state match.
- The legislature must be alerted to all federal grant applications at least 60 days prior to submission of the application.

Kansas. The legislature appropriated $0 for health and social services block grants. By establishing such a limitation the Kansas Finance Council (a joint legislative/executive body) can increase expenditure limitations if block grants occur.

Louisiana. The Louisiana legislature instituted a requirement that federal funds received in the form of blocks be reviewed by the Joint Legislative Committee on the budget, where federal funds are newly incorporated into the state budget. The Louisiana House Appropriations Committee also established a subcommittee to review block grants.

Maine. In 1981, the Maine legislature enacted a law under which any change from federal categorical grants to federal block grants cannot be implemented on the state level without recommendations from the committee having jurisdiction over appropriations and financial affairs and approval by the legislative branch of state government.

Maryland. Standing committees in the Maryland legislature have held hearings on federal fund cutbacks and the legislature has been involved in the review of changes in state regulations resulting from federal fund reductions.

Massachusetts. Under a law passed in 1981, the Massachusetts legislature greatly increased its oversight of federal funds. All federal funds received by the state must now be deposited in a special General Federal Grants Fund, subject to appropriation by the legislature, except under certain circumstances. Additionally, the legislature must be notified of all federal grant applications at least 30 days prior to submission. Among other things, the notification must include a detailed fiscal statement and a description of the substance of the applications. Finally, the legislation specifies reports that state agencies must regularly make to the legislature concerning federal funds.

Michigan. Three bills were passed last year in Michigan dealing with legislative oversight of block grants. SCR 355 required that all state agencies inform the legislature of applications for and the receipt of federal block grants and directed the governor to set forth in detail in the budget the proposed expenditures of federal block grant funds. Under PA 30, the department of management and budget must submit to the legislature an annual report on federal assistance. And PA 18 declared that, if appropriations are made from federal revenues, the amount expended shall not exceed the amount appropriated in the budget act or the amount paid in, whichever is the lesser.

Minnesota. The Minnesota legislature passed a bill requiring one-quarter of FY '82 block grant monies to be allocated according to prior categorical uses, with the remainder to be appropriated by the legislature when it reconvened. During the interim, a full appropriations committee meeting was held on federal cuts and block grant legislation.

Missouri. The 1981 appropriation for the Department of Social Services included the following directive: ". . . Federal block grants received by the Department of Social Services shall be administered under the oversight of a (joint legislative-executive) committee."

Montana. HB 500 passed in 1981, specifically prohibited the expenditure of block grant funds without legislative appropriation. The bill stated,

> "Any federal funds received by or allocated to the state of Montana prior to January 3, 1983, as a block grant as defined by an act of Congress enacted subsequent to April 1, 1981, and specifically designated as a block grant shall require a special session of the legislature for appropriation by the legislature prior to distribution of these funds among agencies and programs."

Subsequently a special session was held in November at which the legislature appropriated all block grants. The legislature then recessed but did not adjourn in order to maintain appropriations control over any additional block grants that might come to the state before the legislature's next regular session.

Nevada. SB 619, passed in 1981, required that,

> Whenever federal funding in the form of a categorical grant of a specific program administered by a state agency . . . is terminated and incorporated into a block grant . . . the agency must obtain the approval of the interim finance committee in order to allocate the money received from any block grant."

New Hampshire. A bill was passed by the legislature requiring the Governor to notify the presiding officers of the Senate and House of Representatives of any block grant awards by the federal government. Any allocation of these grants must be approved by the General Court.

New Jersey. The legislature formed a subcommittee on Federal Aid and the Joint Appropriations Committee intensified to oversight of federal funds.

New Mexico. An interim Federal Funds Reduction Study Committee was set up by the legislature to monitor the federal budget process, determine state and local impact, and draft legislation.

New York. This state passed a comprehensive bill, the "Accounting, Financial Reporting and Budget Accountability Reform Act of 1981," which revamped the budgeting and accounting process in New York, giving the legislature greatly increased control over appropriations and expenditures. The following brief description of the bill is taken from New York's September 1981, "The Ways and Means Report":

- The new legislation requires that no state moneys may be expended except pursuant to an appropriation, and generally prohibits transfers of money between funds unless specifically authorized by statute.

- The Governor must alter the budgetary process to provide for the appropriation of federal funds and all other funds that were heretofore exempt, make substantial changes to the financial plan, begin a new "key item" reporting system to monitor program performance, and operate within a more restricted environment as a result of increased legislative oversight. These changes are designed to parallel the shift in accounting and reporting practices to conform with GAAP (generally accepted accounting principles).

North Carolina. Under HB 1392, the North Carolina legislature asserted its authority to control the appropriation of block grant monies. The bill states:

- ". . . All federal block grant funds received by the State between August 31, 1981, and July 1983, shall be received by the General Assembly . . . "

- "There is established the Joint Legislative Committee to Review Federal Block Grant Funds. The Committee shall review acceptance and use of all federal block grant funds received by the State between August 31, 1981, and July 1, 1983. . . ."

Ohio. HJR No. 39 created a Joint Legislative Committee on Federal Funds to monitor the receipt and expenditure of federal funds and to review all new federal grant programs. The bill also directed the committee to serve in an advisory capacity to the Ohio General Assembly in all matters related to federal grant programs.

Oklahoma. SB 326, passed in 1981, created a Joint Committee on Federal Funds with authority to approve/disapprove federal fund applications and make recommendations concerning federal funds to the legislature. It also directed that claims by state agencies for federal funds may not be processed without written authorization from the president of the senate and speaker of the house.

Tennessee. SB 997, passed during 1981, established several new procedures with respect to the appropriation and expenditure of state funds, including:

- "In the event federal and departmental revenues . . . are less than the amount estimated to be available under the allotments then and to the extent the spending authorizations are hereby reduced; to the extent that federal or departmental revenues in excess of the amounts alloted are realized, such excess shall not constitute increased spending authorizations, except under the conditions herein specified."
- "No state agency shall establish new programs or expand programs, including any programs involving federal or other funds . . . until the program and the availability of the money is submitted to the Finance, Ways and Means Committee chairmen and until said chairmen have acknowledged in writing receipt thereof . . . "
- "The Commissioner of Finance and Administration shall submit a plan for implementing the federal block grants proposed by the President."

Texas. The legislature attached a rider to its appropriations bill which requires that if block grants replace categorical grants, the funds should be allocated to state departments and agencies as they were under categorical grants.

Virginia. Under the 1981 amendments to the Virginia appropriations act, the Governor must produce quarterly reports summarizing the implications of approvals of federal fund grants. The implications to be identified include significant and anticipated budgetary, policy, and administrative impacts of federal requirements.

Senator DURENBERGER. Our next panel is composed of representatives of the human resources community.

We have two witnesses: Delores Delahanty from the National Association of Social Workers and Sandy Solomon who is representing the Coalition on Block Grants.

We will start first with testimony from Ms. Delahanty.

TESTIMONY OF DELORES S. DELAHANTY, BOARD MEMBER OF THE NATIONAL ASSOCIATION OF SOCIAL WORKERS, LOUISVILLE, KY., ACCOMPANIED BY SUSAN E. REES, DIRECTOR, NASW, PROJECT BLOCK GRANT; AND SANDY SOLOMON, EXECUTIVE DIRECTOR, COALITION ON BLOCK GRANTS, WASHINGTON, D.C., ACCOMPANIED BY NANCY EBB, SENIOR STAFF ATTORNEY, CHILDREN'S DEFENSE FUND

Ms. DELAHANTY. Mr. Chairman, my name is Delores Delahanty. I am testifying today on behalf of the National Association of Social Workers (NASW), whose 90,000 members and their clients have an interest in each of the block grants enacted last year and many of the programs proposed for swap and turnback.

I would like to thank you for this opportunity to testify. We know that negotiations on the New Federalism are continuing. However, consumer groups and professional organizations have been excluded from these discussions, even though we believe we have a historical perspective and a good deal of hands-on experience to contribute. We appreciate your recognition of that fact. We wish to commend you for your thoughtful approach to this issue, your commitment to hearing from all sides and for the field hearings which you have conducted.

While NASW supports your efforts to sort out Federal, State, and local responsibilities, we are concerned about some of the language in your proposed legislation. To wit, we are concerned about the abandonment, perhaps, of a commitment to national goals and purpose in favor of flexibility for the States. We feel that some of the language negates more detailed provisions in the individual block grants. We also feel that it excludes public interest groups, consumers, and professional and provider organizations from consultation on State applications and commenting on regulations. We hope that the sorting-out can be done in a way that will make social programs more effective, helpful to people, and responsive to the needs of local communities.

Our association has long believed in the desirability of locally controlled social services delivery systems. However, there is a great deal that concerns us about the administration's proposal. Primarily it is that they are clearly a subterfuge for abandoning the Federal role altogether. This morning it appeared, and you can see from prior testimony, that the abandonment appears to be fostering an adversarial relationship among the various tiers of government rather than promoting constructive, intergovernmental collaboration.

The programs we are talking about represent the government's investment in human capital. From child protection to employment and training, these programs improve the quality of life of our citizens and thus the productivity of the Nation. Although these programs can be simplified and made more manageable, there is a continuing Federal responsibility in all of them. When we are finished sorting-out, I believe the product should look more like a marble cake than a layer cake.

It is obvious from the budget which was presented in February that the administration is planning a phaseout. The transfer proposal is an even more apparent abandonment, with the constantly declining trust fund disappearing altogether after 8 years. This is not sorting-out; it is retreat. You cannot expect creativity from the States and the local communities when we are under siege.

The contribution of Federal funds, which are raised more efficiently and progressively than any State or local revenues, is one responsibility that we believe must be continued. Besides funding, there are other Federal imperatives which I will discuss in a moment in the context of your proposed generic language. I also will refer to information which NASW has obtained from Project Block Grant, a special 2-year effort by which we are assisting social workers in nine States to monitor and to encourage the most rational, open and fair implementation possible under block grants.

Kentucky is one of those project States. We have been heavily involved in the activities there. Our project is linked to the Kentucky Alliance for Human Needs in my State, which is similar to the broad-based coalitions in the other eight States and the Coalition on Block Grants and Human Needs in Washington.

Events of the last few days; namely, the indication that the National Governors' Association is ready to accept the notion of State responsibility for AFDC, force me to address the issue. Frankly, it makes it nearly impossible for the social welfare community to talk about any sorting-out. We find it more than curious that the administration can agree to keep SSI, food stamps, and medicaid—programs that either totally or in large part serve tight, popular disadvantaged groups—the elderly, blind, and disabled—while throwing off AFDC.

Nearly half of the AFDC families are not white, 69 percent of the recipients are children, and 85 percent of the families are headed by women. Why is it so important that the one cash assistance program in the country which mainly aids minorities, children, and women be left to State control?

We know from a study by Martha Ozawa of Washington University in St. Louis that there is a relationship between low-benefit levels and the size of a State's minority population. We know that many States with great wealth have some of the lowest AFDC benefit levels. Texas, for example, which ranked fourth in tax capacity on the ACIR index, in 1981 had the second smallest AFDC benefit among all States. We also know that uniform, national systems like SSI are much more efficient to administer and less prone to errors than the complicated State administered AFDC program.

NASW believes that health and welfare entitlement programs should be a Federal responsibility. The needs they address are tied too closely to the national economy. In times of economic stress, the States which most need programs like AFDC and food stamps will be least able to afford them.

We feel that there are some major programs which are impacted by national policy. Among these are the Low Income Energy Assistance, migrant health, refugee programs, AFDC, foster care and so forth. I would like to be able to address Low Income Energy Assistance in a response after my prepared remarks.

Finally, we feel that there are six major principles which must be imbedded in any concept of New Federalism, and particularly in the legislation which you propose:

1. The Federal Government must insure an adequate, progressive, permanent funding base for investment in human capital programs;
2. Federal resources must be distributed in a way that takes into account varying State resources and needs;
3. The national purpose of any block grant must be clearly defined;
4. The Federal Government must insure nondiscrimination in the use of Federal funds by States;
5. Federal legislation must require planning, reporting and public procedures that insure accountability at both the State and the national level. There is no way that one can monitor the State and local levels for specific programs unless there is basic uniform data available, not simply for planning but for reporting on the effects of the block grant legislation. These would include: Information about needs assessment, objectives, activities, method of distribution, categories of individuals served, and effectiveness indicators.
6. Some services must be guaranteed to be publicly provided and universally available. These are not strings which should be attached, but they are guarantees of an equitable, just and responsive service delivery system.

Thank you for this opportunity to testify.

Senator DURENBERGER. Ms. Solomon.

Ms. SOLOMON. Mr. Chairman, I am Sandy Solomon, executive director of the Coalition on Block Grants and Human Needs. I have for you a copy of a briefing book on block grants which we will make available to other members of the subcommittee later.[1] The Coalition is an alliance of over 100 national organizations, including a wide range of constituencies. We work with over 15 similarly diverse statewide coalitions.

I know the proponents of the New Federalism like to draw a clear line between block grants and budget cuts. However, it is an inescapable fact that these block grants are inextricably linked to budget cuts as part of a strategy to eliminate virtually all support for domestic programs. State governments are discovering that they have been given responsibility for poverty; and that they now have, to quote Governor Lamm's testimony last week, "More authority to do less." Nonetheless, they continue to suggest that the authority part of the equation is worth pursuing. I doubt, especially in this decade, whether the question of resources can ever be separated from that of authority.

The block grant theory assumes that States will draw upon their own resources to compensate for lost Federal funds, or that they will continue to contribute the matching funds no longer required by Federal law. It is clear that the latitude States have to make these choices is diminishing as the demands upon their resources increase.

We are finding that, because block grants were thrown so rapidly to the States this year, many States have simply imposed straight pro rata cuts on funded programs. For example, three-quarters of the States have simply passed along the cuts in the community services block grants to community action agencies. What we are able to comment upon today, therefore, is only a limited kind of block grant implementation. Most States did not take the time to rethink relationships between programs or to evaluate program priorities before accepting the funding. The block grant story this year is essentially a budget-cut story.

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[1] See p. 472.

For this reason, we urge the subcommittee to make this hearing just the first in a series of block grant implementation hearings, and that in the future you call representatives of community-based organizations to comment on how block grants look from their perspective. Good information will be the first thing to disappear as federally mandated data collection ceases and funds are channeled to other functions. As little as we know now, we will know less next year, according to one researcher who has been studying this problem.

I should note that, at the outset, we are finding the record from State to State, and from program to program within each State, to be extraordinarily varied. This year, some States were able to shield block grants from funding reductions because they had a carryover from last year, but many States were forced to make service reductions. Those reductions often came at the expense of people least able to afford increased fees or of groups excluded from eligibility.

This is a budget story, but it is also a block grant story since the States must decide to institute a copayment scheme or to try some other cost-saving strategy. As budget pressures increase, State governments are increasingly tempted to use block grant funds for purposes only remotely related to the specific purposes of the block grant programs. I give an example in my statement of one State in which the county health department is making a claim for next year's preventive health care block grant funds. We are in danger of seeing these once-targeted resources disappear down the gullet of the State budget deficit.

We are also in danger of seeing targeting lost as more politically powerful constituencies demand a share of funds once designated according to specific need. The most glaring example of this trend is the example already cited today by Mayor Martinelli about the distribution of community services block grant funds.

If targeting is in jeopardy in some States because of budgetary pressures, it is also in jeopardy because of political pressures. One example comes from New England where a mayor stated that, as soon as the grandfather clause was removed, he intended to use community services block grant funds for snow removal. He said maybe he would hire some low-income people to do the job, but he had to consider the immediate political necessities.

We can begin to comment on the way in which the public was able to participate in planning for the use of block grant funds. The National Governors' Association is very enthusiastic about the record. The range of quality in the hearings is worth noting. One study found that, for the community services block grant, Washington and Minnesota appear to be the only States that systematically sought out and involved the recipients of services in the implementation planning. Contrast the case of Michigan, which had six hearings in six cities publicized by a coalition of citizen groups, with the case of Georgia.

There is a letter attached to my statement which notes:[1]

> Even people who regularly monitor the State's activities on these issues were unaware there was to be a hearing until 3 days before the scheduled meeting. Legislators we greeted in the hallway on the day of this "legislative" hearing were unaware that it was about to take place. * * * This was the only hearing scheduled by the State.

On next year's plan, Georgia will be holding one meeting on May 19 in one city to discuss all the block grants. There will be inadequate time for the citizens to review the plan because it has not yet been released. There will be no apparent time for citizen comment.

I have other examples in my statement, including the case of Ohio in which the citizens first asked the State agency and then had to force the State legislature to hold a hearing. When the legislature did hold a hearing, the State agency counted it as its legislative hearing. The agency representatives both interrogated witnesses and presented testimony. The result of the hearing was that the citizens were able to point out that the formula the State was using would exclude certain categories of recipients, categories which everyone agreed were legitimate recipients of the program. The bottom line is that this kind of exchange and accountability improved the program.

I will go on to your block grant language very quickly, since I know we are about out of time. We appreciate the opportunity to comment on your draft legislation. Our basic commitment is to see that the principles of targeting and accountability, openness and endorsement of basic rights and protections which are incorporated in any block grant are enacted by Congress.

However, we must strongly caution you that any such uniform language must be a floor, and not a ceiling, for Federal standards and guidelines. Title XVII of the Omnibus Reconciliation Act, as inadequate as we felt it was, provided minimum, not maximum, standards. We believe that the Congress must have the discretion to enact tougher provisions where, in its judgment, those provisions are necessary to meet the national goals and objectives embodied in particular programs. In fact, given that many of the specific protections in the block grants which Congress passed last year are more rigorous than those in the superseding provisions of your bill—given that even the provisions of title XVII are more rigorous—we would adamantly oppose this bill if you were to submit it in its present form.

We are happy to discuss the specific ways in which your proposal can be improved, but only if its purpose is changed to offer basic minimum Federal standards for block grant administration. We commend your desire to provide States with clear and uniform guidelines. We feel that your goal can best be achieved by offering guidelines so superior to those already on the books, so inclusive, that Congress will have little need to amend them in its authorizing committees. If your bill could reaffirm strong Federal expectations for these principles of accountability, openness, and enforcement of basic rights and protections, it would, in fact, become a national model and one that we would be pleased to endorse.

Our specific comments are attached.

Senator DURENBERGER. Good.

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[1] See p. 223.

Thank you very much. Both of your statements will be made part of the record.

Ms. Delahanty said that we can't expect creativity from State and local governments when they are "under siege." I will turn that around and ask both of you whether we can expect creativity from someone who is not "under siege."

Ms. DELAHANTY. I would like to respond in this way: I think that the abrupt and radical changes in the responsibility for social services delivery and other human services programs we have witnessed in the last 2 years have really placed us in a very difficult position to respond. I feel that in the last 10 years, we have made considerable progress—when not "under siege"—in helping to eliminate problems with regard to nutrition, working and striving for better provision of day care, et cetera. I do think that you can contrast the progress of the last 10 years with the chaos of the last 2 years. You can come to some conclusions based on those observations.

Senator DURENBERGER. What conclusions are you talking about?

Ms. DELAHANTY. Our conclusion is this: That there appears to be the case of throwing the baby out with the bathwater. There was some need for economy, efficiency, transfer of responsibility, and perhaps, a restructuring of services. To suddenly say that the Federal Government is going to reduce funds and leave the administration to the States which are ill prepared to receive it—although State and local governments have been increasing their management capacity—has disrupted the delicate ecology of intergovernmental relations. I think this action has been very disruptive for people, coupled with the economy and the pressures and strains on American families today.

Ms. SOLOMON. Times were never better than in the sixties. In recent history, when the States had unrivaled responsibility in most of these program areas, a lot of needs were going unmet—especially in the area of civil rights. Today if you ask a black or Hispanic leader in this country which level of jurisdiction he or she would prefer, the answer is very clear. The answer would come out of the memory of earlier State inattention. The answer is not only that federally mandated programs have made important improvements in the lives of people, but also that State remedies were not forthcoming before.

Senator DURENBERGER. The issues that were given here are equity issues. However, we are dealing principally with using the word "creativity"—creativity in the delivery of a variety of social services, including health, education, and nutritional programs.

It seems to me that we did not create any unique responses here at the Federal level. Much of that creativity came from the local level. Somebody started programs, usually on a nonprofit basis, in States like my own and eventually got them funded by the State legislature. Then they brought the programs to Washington as something that would be good for the rest of the country.

I really am curious to get an honest appraisal from both of you, who have been involved for some period of time in meeting the needs of people out there, as to where you believe real creativity lies. Let's leave out the temporary siege that we are under and deal with creative responses to human need. Where can we find the most creativity in this country?

Ms. DELAHANTY. Let me amplify on my previous remarks. I come from a background of working in the local community. The involvement of churches, the local public sector and the voluntary sector in the development and provision of human services, which occurs at the local level, is guaranteed by certain guidelines or national requirements for fairness, equity and adequacy.

I think we are not expecting prescriptions from the national level. We are concerned about the assurance of equity.

There are certain national policies which impact the local level. Take, for example, what is happening with the refugee problem. The Governor of Florida is saying, "Go to Minnesota." Let me give you another example which, I think, is probably illustrative of what can happen with block grants. You are concerned about Low Income Energy Assistance. In our State, 10 percent of those moneys were transferred to local health care without any public hearing, without any input from local government or anybody at the local level.

There was a 15-percent set-aside for the weatherization program. The eligibility requirements were so restrictive that individuals were prohibited from taking advantage of both the fuel assistance payments and the heating equipment provisions. We, at the local level, had to add an additional $5[illegible]000 of local tax money to help people with fuel assistance payments. In addition to that, we established a voluntary program for energy audits and obtained money from the local utility company to pay for weatherization—materials for caulking and weather stripping, et cetera.

We are creating at the local level. However, when you don't have anything at the local level with which to create, sometimes it gets pretty hard.

Senator **Durenberger**. That gets us to the heart of the problem here. Whether we are talking about the blocks or about the proposals for sorting out responsibilities through the New Federalism proposal, we are dealing with the issues of basic responsibility for economic access. We are talking about who has the ultimate responsibility and the principal responsibility for income security. Who has the responsibility for arming people with the ability to make decisions about how best to meet their needs?

I don't think there is any disagreement among the three of us about that being primarily a Federal responsibility. We are not doing a very good job of discharging it at the present time because everybody is under economic siege. Part of the process of coming to grips with the New Federalism is addressing, head-on, this whole issue of income maintenance, income security.

There is another side of it, though, that deals with administering programs and delivering services. When I asked the creativity question, I was not addressing the income security side. I have addressed that to the administration.

Ms. Delahanty, when you say that health and welfare should be a Federal responsibility, I have to put on my Health Subcommittee hat and say, "Yes; health, in the broadest sense, is a national responsibility." However, I would not trust this Federal Government any farther than we have trusted them to date to do the kind of job that the people of this country need in accessing themselves to health care.

Where they have had the opportunity, the States have done a much better job. This includes the cognizance of home health care which was in the little illustration you gave us. Where there are economies, where they are broadening the access to the system, where there is an early recognition of the needs of long-term care, I have seen a lot of that in place at the State level.

It seems important, as we go through this discussion, to kind of pull apart the issues of service delivery from the issues of economic access. We must keep in mind another important issue that one of you raised about information. Under our current welfare system, people might have an average of $12,000 per family of four. Even if we gave them that in a check—as some people would suggest as an alternative to the current system, and with which, of course, I would not agree—in this society, there still are people without information.

Ms. SOLOMON. There are times, Senator, when we wish you were from a different State. Minnesota is so extraordinary in its level of citizen participation. I have been working with neighborhood groups for the last couple of years. I am firmly convinced that the community is a level at which there is an extraordinary amount of creativity. But the point that must be made is that, among community groups as well as among people or among jurisdictions, there is an inequality of resources, even if the group works on housing or economic development issues. If you are in the South Bronx and trying to put together a commercial development, there are limits on your ability to achieve self-help.

I would like to turn now to one block grant we talked about today quite a bit, the Low Income Energy Assistance block grant, as a demonstration of how poorly this kind of 50-State system works. You could move across the top of the United States through some cold States and find a $365 average benefit in Vermont, a $120 average benefit in Michigan, and a $470 average benefit in Minnesota. The diversity in benefit levels and in eligibility requirements has been so extreme in this particular block grant as to be mind-boggling.

Imagine the consequences for the Nation if eligible families were to take literally President Reagan's charge that they vote with their feet. As Ms. Delahanty said, the consequences would be quite serious. But the consequences involved of such a system are also serious for the people, especially if you are the person trying to make it on $120 in Michigan. There is no telling what political and fiscal circumstances in Michigan produced the decision to set the $120 benefit level.

I feel I have to come to the defense of the program itself; States were in a bad situation on this one. They were taking a really big cut in title XX social services. There were demands for that money from providers who had much more clout than the individual recipients of the Low Income Energy Assistance funds. So they often shifted money from energy assistance to social services and they were trying to be responsible. In some instances, they were holding onto the money because they were expecting a diminished allocation in the coming year. Some of them held money back, as a result, expecting they would have higher service requirements on less money in fiscal year 1983. Now, they are being condemned for trying to plan ahead and husband their resources and they are being told that shows they really didn't need the Low Income Energy Assistance money anyway.

The problem with block grants—and this instance is a good example—is that by removing the targeting, you remove the constituency for funding. Pretty soon you can pretend that there was no need for funding at all, and by removing the information, you remove any ground for demonstrating that need or commenting on what has happened.

We are entering a year where we are going to be able to say very little, with certainty, about what has happened in any one of the States. We can sympathize with the economic circumstances and the fiscal circumstances in which the States have found themselves. However, that will not minimize the fact that people are not faring very well under this new system.

There are innumerable effects of the budget cuts under the block grants that we didn't mention today because they look like budget cut stories. In fact, they are both and that is very serious for people in need.

Senator DURENBERGER. Thank you very much.

I wish I had more time for questions, but our hearing has come to an end.

[The prepared statements of Ms. Delahanty and Ms. Solomon follow:]

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TESTIMONY OF

DELORES S. DELAHANTY, ACSW

Executive Director of the Human Services Coordination Alliance,
Louisville, Kentucky

On Behalf of The

National Association of Social Workers

Before The

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

Of The

COMMITTEE ON GOVERNMENTAL AFFAIRS
U.S. SENATE
May 11, 1982

Mr. Chairman, members of the subcommittee, my name is Delores Delahanty and I am testifying today on behalf of the National Association of Social Workers, whose 90,000 members and their clients have an interest in each of the block grants enacted last year and many of the programs proposed for "swap and turnback."

I would like to thank you, Mr. Chairman, for this opportunity to testify. We know that negotiations on new federalism are continuing, even as we talk, between the Administration and state and local elected officials. Consumer groups and professional organizations have been excluded from those discussions even though we believe we have a historical perspective and a good deal of hands-on experience to contribute. We appreciate your recognition of that fact.

Whether or not the Administration soon introduces its federalism legislation and whether or not the Governmental Affairs Committee retains jurisdiction, we wish to commend the chairman for his sincere, thoughtful approach to the issue, his commitment to hearing all sides and the field hearings he has held. We hope, Mr. Chairman, that you will continue to play a leading role in whatever legislation may be developed.

NASW supports your efforts to "sort out" federal, state and local responsibilities. We hope that can be done in a way that will make social programs more effective, helpful to people and responsive to the needs of local communities. Our Association has long believed in the desirability of locally controlled social service delivery systems. However, there is a great deal that concerns us about the Administration's proposals. Primarily it is that they are clearly a subtrefuge for abandoning the federal role altogether.

The programs we are talking about represent the government's investment in human capital. From child protection to employment and training, these programs improve the quality of life of our citizens and, thus, the productivity of the nation. Although these programs can be simplified and made more manageable, there is a continuing federal responsibility in all of them. When we are finished sorting out, I believe the product should look more like a marble cake than a layer cake.

That the Administration is planning a phase-out is obvious from the budget it presented in February: Between fiscal years 1982 and 1985, the school improvement block grant would fall from $666 to $335 million; the social services block grant, from $2.9 to $1.9 billion; the community services block grant, from $508 to $103 million. The transfer proposal is an even more apparent abandonment with the constantly declining trust fund disappearing altogether after eight years.

This is not sorting out; it's retreat. You cannot expect creativity from the states when we are under seize.

The contribution of federal funds which are raised more efficiently and progressively than any state or local revenues, is one responsibility that we believe must continue. Besides funding, there are other federal imperatives which I will discuss in a moment in the context of your proposed generic, or "boilerplate," language. I also will refer to information NASW has obtained from Project Block Grant, a special, two-year effort by which we are assisting social workers in nine states to monitor and encourage the most rational, open and fair implementation possible under block grants. Kentucky is one of the project states, and I have been heavily involved in the activities there. Our project is linked to the Kentucky Alliance for Human Needs in my state, similar broad-based coalitions in the other eight states and the Coalition on Block Grants and Human Needs in Washington.

Events of the last few days, namely, the indication that the National Governors Association is ready to accept the notion of state responsibility for AFDC, force me to address the issue that, frankly, makes it nearly impossible for the social welfare community to talk about any "sorting out."

We find it more than curious that the Administration can agree to "keep" SSI, food stamps and Medicaid, programs that either totally or in large part serve "popular" disadvantaged groups--the elderly, blind and disabled--while throwing off AFDC. Nearly half of AFDC families are non-white. Sixty-nine percent of the recipients are children. And 81 percent of the families are headed by women. Why is it so important that the one cash assistance program in the country that aids mainly minorities, children and women be left to state control?

We know from a study by Martha Ozawa of Washing[illegible] University in St. Louis that there is a relationship between low benefit levels and the size of a state's minority population. We know that many states with great wealth have some of the lowest AFDC benefit levels. Texas, for example, which ranks fourth in tax capacity on the Advisory Commission on Intergovernmental Relations index, in 1981 had the second smallest AFDC benefit among all states. The tax capacity was 22 percent higher than the national average while the maximum monthly benefit for a four-person family was only $140. We know also that uniform, national systems like SSI are more efficient to administer and less prone to errors than the complicated, state-administered AFDC program.

The pattern in western industrialized nations has been for cash support programs to emanate from the national government. The Administration's proposal would signal a break from this tradition and head us back in the direction of the Elizabethan poor laws.

Why, then, does the Administration continue to insist on shifting responsibility for AFDC to the states? We cannot fathom the irrational intransigence of some high Administration officials on this point and can only conclude that it is based on some ideology that flies in the face of history. It certainly runs counter to the goals of equity and efficiency.

NASW believes that health and welfare entitlement programs should be a federal responsibility. The needs they address are tied too closely to the national economy. In times of economic stress, the states which most need programs like AFDC and Food Stamps will be least able to afford them.

them. Furthermore, the nature of an entitlement assures that any person who qualifies will be treated similarly regardless of which state he or she is in. In our monitoring project, we have observed that high levels of unemployment give rise to transciency, even entire families moving from state to state to find work. Meanwhile, our members are fearful that archaic state and county residency requirements will re-emerge as elected officials grapple with budget cuts.

AFDC foster care is also an entitlement that, by its very nature, should not be left to state prerogative. Other programs, like refugee assistance, should not be turned over to states because they arise from problems created by national policy.

Low-income energy assistance, similarly, was created largely in response to the national policy of oil de-regulation which simultaneously resulted in windfall profits for producers and dramatically higher prices for consumers. Although the program is now a state block grant, the President's proposal to turn financial responsibility over to the states violates the principle that the federal government must shoulder responsibility for individual and regional inequities caused by its policies.

Programs like migrant health should remain a federal responsibility because their target populations will not be claimed by any single state. And, finally, the federal government should retain at least temporary responsibility for programs that strive to establish innovative approaches to old problems. The Adoption Assistance and Child Welfare Services Act of 1980, for instance, establishes a system of sticks and carrots for states to reduce the use of expensive foster care in favor of adoption or returning children to their natural families aided by supportive services. Until such a system has a chance to work and become ingrained at the state level, the federal government should provide direction.

Now, with regard to the devolution of programs to states--whether via block grants or "new federalism"--I would like to outline six principles which NASW believes must be adhered to by the federal government. Mr. Chairman, I hope you will recognize these principles in your generic language. They are discussed in further detail, along with documentation from our project, in additional material I would like to submit for the record.

1. The federal government must ensure an adequate, progressive and permanent funding base for investment in human capital programs.

We are referring here to all of the current block grants and the social, health, nutrition, education and training programs proposed for transfer. It would not be inappropriate for Congress to guarantee to maintain the current percentage of the federal budget, or GNP, as a continuing funding base for these programs. The regressive and declining trust fund proposed by the Administration should be rejected.

I don't want to confuse federalism with funding issues, but the two are inescapably intertwined since the only way states have been able to use their new-found flexibility has been in deciding how to allocate cuts.

We know of only two states--Iowa and Idaho--that made a commitment this year to make up for lost federal funds. Some, like Florida and Minnesota, partially filled the gap with tax increases, especially in the regressive sales tax. Many states, however, are making parallel reductions in human service programs, saying that if the feds don't care neither do they.

NASW's Project Block Grant has observed that states, by and large, are trying to absorb federal cuts in ways that may not be immediately felt by clients. However, we know that across-the-board reductions in personnel, travel and purchase of service contracts are resulting in fewer inspections of licensed facilities; the inability of child protective workers to make as many home visits as before; a greater reliance on paperwork and crisis intervention rather than counseling and prevention in dealing with child abuse; the abandonment of information-referral and outreach services; and the institution of fee scales that may bar some from needed services. The direct impact on clients may never be discernible because of the lack of data. But we have begun to see, as in St. Louis and Milwaukee, what appears to be an increase of child deaths from abuse or neglect that may be at least partially attributable to case overload. In Pennsylvania, the number of verified abuse-related deaths has increased 28 percent in the past year.

Most states have cut back on administration, planning and evaluation, which, we believe, will lead ultimately to wastefulness, inefficiency and less innovation. We have also found that states and agencies are spending very cautiously due to the uncertainty of this year's Continuing Resolution and, now, the FY 83 budget. In some cases, for example, fuel assistance funds have gone unspent as a hedge while poor people have gone cold in their homes. All of this "absorption," if you wish to call it that, cannot go on forever. I believe we will reach another telling point this July when many new state budgets go into effect. The toll on society will become more apparent as time goes by.

All of this is to say that we hope that any federalism legislation will recognize the need for what the Advisory Commission on Intergovernmental Regulations has called the "critical mass" of federal funding necessary to make block grants meaningful. We also hope for provisions that will help leverage state and local resources. In addition, we believe this subcommittee could take the initiative in promoting the use of more progressive tax measures at the state and local level, for example, by enabling them to use IRS to collect state income tax.

2. Federal resources must be distributed in a way that takes account of varying state resources and needs.

The current block grant distribution mechanism locks in the historic patterns and biases of categorical grants. Straight population is also a poor indicator of special needs and differing state revenue capacities. NASW believes a formula taking into account poverty and some specific factors relating to specific block grants (such as indicators of at-risk population or infant mortality rates) should be developed for each block grant. Similarly, states should be required, or at least encouraged, to use such formulae in any pass-through scheme.

3. The national purpose of any block grant must be clearly defined. We know that the Administration, for example, has been using Title XX social services as a sort of dumping ground by suggesting that legal services, criminal justice and economic development be provided under it. So far, we have not heard of any such moves in the states. The potential remains, however, with the broadly written purposes in most of the block grant legislation and the absence of definitions of allowable uses.

Most of the human service block grants generally prohibit the use of funds for real estate or improvements. Any federalism bill or generic language should, we believe, also prohibit the use of what we call human capital funds for projects that only heighten the competition between states for new industry and thus, result in no net gain for the nation.

4. The federal government must ensure non-disrimination in the use of federal funds by states.

Ultimately, the only systematic way to ensure this is to require reports of such data as the race, ethnicity, age, sex, handicapping condition and income level of service recipients. We do not think such reporting would be unduly burdensome, and it can be recorded in the aggregate apart from individual client files. This is the only way that citizens groups, like KAHN in Kentucky, will be able to monitor this aspect of block grants.

In addition, we believe the non-discrimination section in the generic language should include protection against discrimination due to citizenship, residency and political affiliation. Title VI of the Civil Rights Act, Section 504, Title IX and the Age Discrimination Act should be specifically stated as applying to the block grants. And, finally, a procedure should be authorized for citizen complaints to the Secretary with a specified time period for determination. We also believe states should be required to provide complaint and impartial hearing procedures.

5. Federal legislation must require planning, reporting and public procedures that ensure accountability at both the state and national levels.

Neither Congressional oversight nor grass-roots monitoring can take place without basic, uniform data. For each block grant, we suggest authorization of a national, unbiased study to identify the minimum number of data elements required to assess a state's performance against the stated purpose of the block grant. We think this information should parallel the data that should be required in each state plan and report, namely, needs assessment, objectives, activities, method of distribution, categories of individuals served and effectiveness indicators. States should then be required to follow this minimum level of planning and reporting.

Ironically, both Title XVII of the Reconciliation Act and the proposed generic language require more detail in state plans or applications than in reports. From our point of view as monitors, a plan is only a plan, but the report is what will tell us what is actually done. We suggest that reports be required to relate back to the original plan.

Regarding public hearings, we believe they should be held by the executive agency responsible for developing the plan. They should be held at least 30 days prior to the time the plan is to go into effect with the potential for amendment as a result of the hearing. Prior to the hearing, the agency should consult with representatives of advocacy, community and provider groups as well as elected officials and planners.

All of this will be very expensive. And it does not even include the cost of establishing new mechanisms in state legislatures, many of which have been part-time, minimally staffed and uneducated in the area of human services. Some states, like my own, Kentucky, have already set up legislative study comissions. Ours will take up to one percent off the top of the block grants to finance its work. The principal purpose of most of these bodies is to determine the effectiveness, including the cost-effectiveness, of agencies receiving funds. Any of you familiar with the difficulties of evaluation research will understand the scope and possible pitfalls of such a task, as well as the fears of many service providers that they will be judged unfairly.

NASW in the past year has insisted that every possible dollar be devoted to services to people, even at the expense of administration. As I mentioned before, however, this is not a sound course for the long term. We believe that Congress must, if it wants block grants to succeed, create a new pool of funds for planning, administration and evaluation.

6. Some services must be guaranteed to be publicly provided and some universally available.

On this final point, I am speaking primarily of the social services block grant, which perhaps offers more lattitude to states in this regard than the other block grants. NASW has traditionally held the view that certain services are a public responsibility and should be carried out by public agencies. Children's protective services is a prime example because they have historically represented society's commitment to the health and safety of our children. This responsibility should not be delegated to the private sector. We also believe that administration and planning should be carried out by officials who are accountable to the public.

Block grants, with their reduced level of funding, have posed a dilemma between the obvious necessity to target funds on those with the lowest income and the desirability, from a social point of view, to make some services universally available at no cost. Information and referral, the starting point for most people with any sort of problem, is such a service and was formerly mandated under Title XX. Crisis intervention and certain public health services are other clear examples. We believe Congress has a duty to determine which services must be maintained for all people regardless of income as a public good. We also recommend concerted Congressional oversight on the impact of changes in eligibility standards and the inauguration of fee scales, both of which can act to deny these kinds of services to people who require them.

Mr. Chairman, this concludes my statement on behalf of the National Association of Social Workers. I reiterate my appreciation for your affording us this opportunity and would be happy to answer any questions about my experience with block grants in Kentucky. Staff here with me from our national office would be glad to answer your questions about our national project.

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Contact: Susan Rees or Al Gonzalez,
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TO: Subcommittee on Intergovernmental Relations of the Committee on Governmental Affairs, U.S. Senate

DATE: May 11, 1982

SUBJECT: COMMENTS ON PROPOSED UNIFORM BLOCK GRANT MANAGEMENT ACT

The following comments address uniform language regarding the cross-cutting issues of block grant management drafted by Senator Dave Durenberger, chairman of the Subcommittee on Intergovernmental Relations. They should not be regarded as an exhaustive analysis, but as preliminary comments reflecting the general concerns of NASW.

NASW's primary disagreements with the draft are:

- It negates all more detailed provisions for such items as applications, hearings, earmarking and priority services contained in individual block grant legislation, both current and future (sections 1741 and 1748).
- It subordinates the goal of achieving national purposes to the goal of increased flexibility for states (section 1742).
- It excludes consumer, public interest, professional and provider organizations, and the general public, from consultation on the preparation of state applications (section 1744) and from commenting on proposed federal regulations (section 1753).
- It leaves enforcement of non-discrimination requirements entirely to the discretion of federal agency heads (section 1745).

Sec. 1741 Applicability

Uniform language pertaining to management should not supercede provisions of specific block grant programs. Language in the specific programs should take precedence because it has had the benefit of the study, expertise and experience of the Congressional committees which drafted it (as well as the approval of Congress) and, therefore, can be presumed to better reflect what is required to achieve the programs' stated purposes.

The requirements for hearings, applications and other matters in several of the block grants are more detailed than those in the draft language. The Health Prevention and Health Services Block Grant, for example, requires the application to identify those "populations, areas and localities in the state with a need for the services" provided under the program. The uniform language could be construed to eliminate that requirement.

We believe the uniform language should specify that the Act shall not supercede any provisions of law authorizing block grant programs.

Sec. 1742 Statement of Purpose

Flexibility, in and of itself, should not be the purpose of the Act. We believe the purpose should be to "foster sound administration, including through the provision of greater flexibility to recipients, in order to better ensure the achievement of national purpose."

Sec. 1744 Application and Coordination

It is imperative that state applications and reports contain sufficient data to allow meaningful analysis by citizens in the states who, under the rationale for block grants, are supposed to replace federal agencies as the watchdogs and monitors of state performance. This is truly a bold experiment, since most private citizens lack the expertise, time and access to state documents to carry out this duty. We believe the Congress can assist them by assuring the availability of pertinent information without placing great burdens on state government.

Reports on the actual use of funds must relate directly back to intended uses stated in the original application. In other words, the report must report on how all elements of the plan were satisfied. We recommend that both annual applications and reports contain the information specified in Sec. 1742 of the 1981 Reconciliation Act (goals and objectives; types of activities to be supported, geographic areas served, categories or characteristics of individuals served; criteria and method for distribution of funds, including targeting on the basis of need). Furthermore, we believe that to enable citizens to assess compliance with targeting and non-discrimination provisions, states should be required to report in the aggregate the percentage of beneficiaries of block grant funds by race, ethnicity, religion, sex, age, handicapping conditions and income level Subsection (c) regarding applications and reports should be specifically documented as a response to the goal of citizen participation and as a guard against the repetition of historic patterns of neglect of human services and inequities on the part of some states.

In subsection (d), in addition to consulting with elected officials and planning agencies, states should be required to consult with representatives of "provider, community and advocacy groups" whose members are the beneficiaries or potential beneficiaries of block grant programs. No application should be accepted by the federal agency head unless the state certifies that such consultation has taken place. To make such consultation manageable, meaningful and fair, the legislation should authorize advisory committees which will meet regularly during the planning process.

In subsection (e) regarding public hearings, legislation must ensure that notice be published and the application or plan be available throughout the state at least 30 days prior to the hearing. In addition, notice should be provided to provider, consumer and advocacy groups as well as to units of local government. Hearings should be held well enough in advance that it is possible to amend the application or plan before it goes into effect. Hearing officers should be required to make a written response to the major points expressed at each hearing. Because the public hearing should be an adjunct to the planning process, we believe it should be conducted by executive agencies or departments. This does not preclude legislative hearings.

In subsection (g), the agency head should be required to withhold funds from any recipient who has been shown to have failed to meet the requirements of this section.

Sec. 1745 Nondiscrimination

"Citizenship, residency and political affiliation" should be added to the grounds for possible discrimination in subsection (a) (2). Citizenship and residency were formerly protected under Title XX. Especially in times of restricted resources, local officials are tempted to conserve funds by denying services to persons on the basis of citizenship and residency. This is particularly abhorent to the public interest when, for example, certain public health and protective services are withheld. Since these are federal funds, they should be available to serve all people. With the apparently growing trend of states to pass block grants through to counties, we are also concerned that even residents of the state will be denied services by technicalities regarding their county of residency.

The legislation should require the establishment of a procedure within the state for the filing and impartial determination of discrimination complaints from individuals. Individuals should also have the explicit right to bring complaints to the attention of the agency head. The agency should be required to issue a determination on such complaints within a limited period of time.

A finding of failure to comply by the agency head should require referral to the Attorney General, exercise of federal non-discrimination laws and the withholding of block grant funds from the state.

Sec. 1746 Transition Provision

During the first transition year, all projects formerly funded under federal categorical programs should receive a pro-rata share of the block grant. The purpose of this provision is to avoid the unnecessary closing of agencies or disruption of services until proper evaluation has been made.

Sec. 1747 Agency Reports

The act should authorize and set aside additional funds for a study attached to each block grant that will identify and define a minimal set of data to indicate the progress of states in meeting national purposes. Such study should be conducted by an independent research organization and should be reported to Congress within two years. Based on the results of the studies, Congress should require states to report to the agency head annually using the uniform data base. The agency head's annual report to Congress should be in writing and available to the public. Oversight hearings should be held annually by Congress.

Sec. 1748 Use of Funds

Subsection (a), in combination with Sec. 1741 (providing that all provisions of the Act supercede the individual block grant Acts), is greatly disturbing in that it allows states to unilaterally abandon specific services or programs that Congress has already decided must be maintained, at least to some degree, under block grants. The Alcohol, Drug Abuse and Mental Health Block Grant, for example, requires the continued funding of community outpatient services, including specialized services for children, the elderly, chronically mentally ill and former mental hospital patients; 24-hour emergency care services; day treatment of partial hospitalization services; screening for patients being considered for admission to state mental health facilities, and consultation and education services.

States formerly did not administer community mental health centers. The Mental Health Systems Act of 1980, after years of study, authorized a transition to greater state involvement, but established special grant programs to encourage the achievement of nationally identified goals such as the mental health needs of the elderly and other previously underserved groups. The Mental Health Systems Act never had a chance to work, but the ADMH Block Grant preserved some of its priorities by mandating certain services.

Furthermore, we believe subsection (a) is unnecessary since states are already able to use block grant funds for any activity or service consistent with the purpose of the program. The only effect of this subsection, then, would be to overturn specific provisions, such as the one mentioned above, which only serve to further define the purpose of Congress in enacting block grants.

The legislation should require that, in all services and programs funded under block grants, priority address first the needs of low-income individuals. Hearings should be held by Congress to determine which services intended to be funded under block grants should be universally available regardless of income and which should be mandated to be provided by public authorities. NASW believes that some services, such as child protection, represent a public good and, therefore, cannot be restricted by any eligibility standard or delegated to private entities which are not directly accountable to the public. Planning for the use of block grant funds is another function which, we believe, must be performed by a public entity.

Block grants, whose purpose is the improvement of the health, education, training and social well-being of people, should be restricted from use in programs (such as economic development) which fail to serve the overall goal of improving the nation's human capital.

Sec. 1749 Audits

NASW is greatly concerned about the potential for co-mingling block grant funds with state resources and the possible result that federal dollars would be diverted to uses outside the parameters of the purpose intended by Congress. For this reason, we believe any audit should be programmatic as well as financial.

We are pleased that the draft language recognizes most of the recommendations of the Comptroller General in his letter to the Subcommittee on Intergovernmetal Relations dated November 13, 1981. One recommendation that has not been taken, however, is that audits be required of sub-recipients as well as recipients. We point out that, in a review of 98 Title XX contracts with "sub-recipients," the Comptroller General's Office found 12 percent of the value of the contracts in 60 of the 98 contracts to be "improper and unjustified."

In subsection (h), we believe the one percent, $1 million, earmark for auditing expenses either be eliminated as arbitrary and unrelated to actual cost or be funded separately from the block grants.

Sec. 1751 National Policy Assistance Standards

The legislation should specifically permit an individual or group of individuals to challenge any certification by a recipient or sub-recipient. Such a challenger should be permitted to be a party to any hearing or appeal and to submit evidence of non-compliance.

We disagree with the provision that evidence of a recipient's compliance with requirements under any assistance program, be considered and given "great weight" as evidence of compliance with the requirement under question.

Sec. 1752 Oversight of Funds

This section should be deleted. To say that state and local procedures should take precedence over any conflicting provision of this Act negates any reason for the Act and, in effect, gives recipients veto power over federal requirements.

Sec. 1753 Regulatory Provisions

In addition to recipients, the public should be given advance notice and the opportunity to comment and submit recommendations on proposed regulations. Consultation prior to promulgation should be afforded to national and state organizations representing potential consumers and providers of the typical services under the block grant in question. The proposed language's restriction of such input to states, local governments and former recipients in this section ignores the interest of the wider public in federal programs. It also systematically excludes the ultimate beneficiaries of services from having any voice whatsoever in the regulation of programs that affect their lives.

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May 11, 1982

Contact: Susan Rees or Al Gonzalez,
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INTERIM REPORT ON IMPACT OF BLOCK GRANTS

Through NASW's Project Block Grant, human service advocates have been monitoring the implementation of block grants in nine states [1] which represent approximately 33 percent of the nation's population. This summary is based upon the return of questionnaires from project participants in five states (Florida, Mississippi, Missouri, Kentucky and California), informal information from other states and reports from other national monitoring projects.

The project will continue through June 30, 1983. This report, therefore, represents a very preliminary analysis. Because the Administration has done away with most, if not all, uniform reporting requirements under block grants, and because block grants intentionally produce great diversity in the way states implement them, we doubt that any research will ever be conclusive on the impact on clients nationally.

> *Findings on the following points indicate that, in the first seven months of block grants, implementation has been highly uneven from state to state. Most of the impact of transition to state control probably will not become apparent for several years, arguing against further changes or additions to block grants until more conclusive patterns can be discerned. We do know that states have not rushed to fill the federal funding gap and, in fact, are continuing to withdraw their own resources. They are also reducing or eliminating services that had been given priority by Congress before passage of the 1981 Reconciliation Act.*

Only two of the five states had enacted comprehensive block grant legislation. Kentucky established a legislative research commission and block grant oversight process; California, a block grant advisory task force, consisting of executive and legislative branch appointments, to study all aspects of the block grants and make recommendations to the governor and legislature.

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[1] The states are Pennsylvania, Florida, Kentucky, Mississippi, Missouri, Illinois, Minnesota, Colorado and California.

- In two of the five states, the executive branch held public hearings. In Missouri, state officials were ranked as having most influence at hearings that were largely to explain block grants. In Mississippi, where some 1,000 persons attended each of seven hearings around the state, service providers were ranked as being most influential.

- Three of the five states had legislative branch hearings as part of the regular appropriations process. Florida, in addition, had a special legislative hearing on block grants.

- Three of the five states (California, Florida and Missouri) reduced state contributions to programs funded under block grants.

- One of the five states, Florida, passed a (sales) tax increase, part of which is to help offset federal budget cuts. The other four states did not increase taxes.

- One of the five states, Kentucky, adopted a new procedure for handling complaints. The rule establishes a policy for civil rights discrimination and service complaints in social services programs and covers procedures for informing clients of their rights, the filing of complaints and the conduct of evidentiary hearings and appeals.

- In the Social Services Block Grant, purchase of service contracts, especially day care, information-referral, adult protective services and alcohol-drug abuse were mentioned as having been cut more than the average by the three states answering the question.

Generally, states have used two basic methods of allocating federal funding reductions: across-the-board and priority ranking. Prioritization appears to have been more prevalent in the Social Services Block Grant, with which states have prior administrative experience and which has traditionally provided a wide range of services.

An example of the pro-rata method came in Mississippi where, after the intention to cut popular elderly programs was announced, the resulting outcry prompted officials to make across-the-board cuts in all purchase of service contracts. The public agency, meanwhile, suffered mainly "paper cuts."

Even when states have prioritized, cuts in general administration, maintenance, travel and personnel have affected services across-the-board. For example, in California, the state continued to mandate that county social service offices provide child protective services (which other states have also recognized as meeting a "life-threatening" need) under prescriptive state regulations. Nevertheless, due to general personnel cuts, the state department predicted: "This will generally result in increased caseloads and a decreased ability to provide direct services to clients...We will see more paperwork--less services."

California also continued the mandates and regulations for in-home supportive services and out-of-home care services for children. The mandate, but not the regulations, continued for adult protective services, adult out-of-home care and information-referral. Both the mandate and regulations were dropped for child day care case management, family planning services and health- and employment-related services.

Texas is another state which gave high priority to protective services, cutting it only 9.6 percent compared to a 12.4 percent average for all social services. Nevertheless, traditionally high-risk groups (unmarried/school age parents, truants, runaways and children in high risk home situations) were planned to be eliminated as recipients of contract and direct child protective services.

When states rank priorities, preventive services, information-referral and outreach of all types tend to come out at the bottom. Some CAP agencies receiving funds from the Community Services Block Grant have been advised to stop outreach into poor communities they serve. Some Community Health Centers have eliminated their social service components which assisted clients in obtaining transportation, food, clothing and income support as an adjunct to health services.

COALITION ON BLOCK GRANTS AND HUMAN NEEDS

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IMPLEMENTATION OF THE 1982 BLOCK GRANTS

UNIFORM BLOCK GRANT LANGUAGE

SANDY SOLOMON
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Mr. Chairman, members of the Subcommittee, I am Sandy Solomon, Executive Director of the Coalition on Block Grants and Human Needs. On behalf of the Coaltion I want to commend you for your attention to the way in which federal authority is being transferred to the states at a time when the more pressing concern is the devastating effect the budget cuts are having on our nation's people and on the state and local jurisdictions that serve them. The questions you raise in these hearings may be less immediately compelling, but they are no less crucial to the fair and equitable distribution of public resources.

The Coalition on Block Grants and Human Needs is an alliance of over 100 national organizations that includes many religious denominations; civil rights groups; organizations representing poor and working people, the disabled, the elderly, women and children; community-based employment, housing, education and economic development networks; any many others. We are working with more than 15 similarly diverse state-wide coalitions, most of them formed out of a common concern over the combined impact of block grants and budget cuts.

Last year we were deeply concerned that Congress' precipitous approval of block grants and budget cuts would result in an ill-conceived transfer of the budget deficit to state and local government, the indirect elimination of many programs addressing important national needs, and a threat to accountable, accesible government procedures. It is as yet too early to offer a systematic evaluation of the combined effects of block grants and budget cuts, but the preliminary indications are that we were right to be worried.

I should note that we are not opposed to all block grants nor to all moves to decentralize public authority, but we strongly believe that the federal government has a role to play in providing standards for and oversight of the expenditure of federal funds. The Coalition, in its evaluation of block grants and other "new federalist" proposals, applies four principles. We look for:

- adequate federal funding for human needs and income maintenance programs;
- federal standards to ensure that such funds are targeted to those people with greatest need;
- federal enforcement of civil rights and other protections for Americans with special circumstances; and
- federal guidelines to ensure that local, state and federal agencies follow open, democratic decision-making processes and adhere to basic standards for public accountability, including adequate record-keeping, auditing and oversight.

Since Andy Mott appeared before this Subcommittee last March on behalf of the Coalition, we have begun to gather information on the nine block grants enacted last year in order to evaluate the effectiveness with which states are assuming their new responsibilities.

This task is by no means complete — we intend to continue and intensify our efforts through the summer — but we want to share with you some tentative observations by way of raising again our concern that these four basic principles guide federal, state and local practices. For us it is a question of equity among citizens and among jurisdictions. If poor citizens are the most underserved medically, or most in need of fuel assistance, they should receive the bulk of the federal assistance which the Congress approves. If one state has a disproportionately high number of people in poverty and disproportionately low fiscal capacity and effort, it is the propert role of the federal government to bridge the disparity between that state and its neighbors.

Links Between Budget Cuts and Block Grants

I know proponents of "new federalism" like to draw a clear line between the block grants and budget cuts, but it is an inescapable fact that these block grants are one of the principle devices in a campaign to eliminate virtually all federal support for domestic programs. State governments are discovering that they have been given responsibility for poverty, that they now have, to quote Governor Lamm's testimony last week, "more authority to do less." Nevertheless, they continue to insist that the authority part of the equation is worth pursuing. I doubt whether especially in this decade the question of resources can every be separated from that of authority.

States are hardly in an enviable position these days. A National Council of State Legislatures survey at the end of last year found that 30 of the 50 states expected either year-end budget deficits or surpluses of less than one percent of the general fund. At the same time, as of mid-March, 26 states were considering legislation to increase taxes by $6.8 billion, a sum that may, in the end, top last year's ten-year-record-high increases.

Block grant theory assumes that states will draw upon their own resources to compensate for lost federal funds or that they will continue to contribute the matching funds no longer mandated by federal law. While there is some encouragement for this theory from the fact that many states are continuing their match for the Social Services Block Grant, it is clear that the latitude that states have to make these choices is diminishing as the demands upon their resources increase.

There are many examples of how these pressures will build up, strengthening the already intimate interelationships between budget cuts and block grants. When,for example, at the beginning of the 1983 fiscal year some states assume administration of community health centers under the Primary Health Block Grant they will be required to support a rapidly growing clientele because cuts in mean-s tested entitlement programs are prompting increasing numbers of people to use the centers to meet their basic health needs. Similarly, cuts in the federal immunization programs (which have led to a 32 percent drop in vaccine purchases) are putting increased pressures on the state immunization programs funded under the Maternal and Child Health Block. Some states -- Michigan and Idaho among them -- are reporting reductions in their own programs; Idaho has closed some of its public health centers, reduced the hours of those still remaining and discontinued distribution of vaccine to private physicians. There are similar examples in virtually every block grant area.

We are finding that because the block grants were thrown so rapidly to the states, and possibly also because this is an election year, many states simply imposed straight pro-rata cuts on funded programs. For example, three quarters of the states simply passed along the cuts in the Community Services Block Grant to community action agencies. What we are able to comment upon today, therefore, is only a limited kind of block grant implementation -- most states did not take the time to rethink relationships between programs or to evaluate program priorities before accepting funding. The block grant story this year is especially a budget cut story.

For this reason, we urge the Subcommittee to make this just the first in a series of block grant implementation hearings. Most states begin their 1982 fiscal years in July, and there will be more to report about block grant implementation thereafter. It is especially important that you continue to request this information into fiscal 1983 since good information will be the first thing to disappear as federally mandated data collection ceases and funds are channeled to other functions. As little as we know now, we'll know less next year, according to one researcher who is studying this problem.

Targeting

We can nonetheless offer certain observations about the combined impact of budget cuts and block grants. I should note at the outset that we are finding the record from state to state and from program to program within each state to be extraordinarily varied. We've been impressed with the way some states have managed to absorb the block grant cuts this year. We've also learned of instances in which targeting yielded to political or fiscal expediency. This year some states were able to shield block-granted programs from funding reductions because they had some carryover from last year. Colorado had enough 1981 categorical money, for example, so that it was able to fund its Preventive Health Block Grant programs at full level. Others made administrative changes; many states — Illinois, New Jersey, Kansas, Wisconsin, and Michigan among them — reduced staff under the Social Services Block Grant, for example.

But many states were also forced to make service reductions and those service reductions often came at the expense of people least able to afford increased fees or of groups who were excluded from eligibility (as, for example, under the Low-Income Energy Assistance Block grant). A survey of roughly 150 public and private social service agencies conducted by the Missouri Association on Social Welfare found that agencies were using four methods to implement block grant cuts:

- providing less services/ providing only crises services
- raising eligibility requirements/ instituting or increasing fees for subsidized services;
- extending the waiting time for services
- or eliminating services completely.

All of these strategies have potentially harmful effects, but some are more likely to exclude the poorest recipients. For example, a mother working at minimum wage has a weekly take-home pay of $120. If a day care center institutes a "copayment" or increased fee system, the impact on that mother may be significant. In Missouri, the average payment is $3 per day or $15 per week per child, more than 10 percent of that mother's wages if she only has one child. This is a budget story but it is also a block grant story since states must decide to institute a copayment scheme or to try some other cost saving strategy. The further point, however, is that as budget pressures increase, state goverments are increasingly tempted to use block grant funds for purposes only remotely related to the specific purposes of block-granted programs. In the interests of avoiding elimination of basic public functions, we fear that states quickly come to view block grant funds as supplemental to general purpose funds, and populations or programs of explicit concern to Congress will of necessity receive that much less support. For example, one state official predicts a stream of small demands on block grant funds in the area of health care; his county health department is requesting that one-third of its general budget support be drawn from the Preventive Health Block Grant. Those block grant funds, if so designated, will be supporting hypertension or health education or rape crisis or emergency medical services only indirectly, if at all. We are in danger of seeing these once-targeted resources disappear down the gullet of the state budget deficit.

We are also in danger of seeing targeting lost as more politically powerful constituencies demand a share of funds once designated according to specific need. The most glaring example of this trend is that in many instances states are designating counties as recipients of Community Services Block Grant funds and are using general population instead of low-income polulation as a critereon for resource allocation. For example, for fiscal 1983 the Montana legislature passed a law transferring all $1.2 million in CSBG funds to the state's 56 counties under a formula based primarily on total county population; roughly half of these counties will receive less than $10,000 each. There are two points to be made here:

1) not only will the state no longer target resources to areas with high concentrations of poor people, but it will provide a meaningful level of funding to few areas at all;
2) with counties involved either as designated recipients or as intermediaries between the state and designated recipients, not only will less support reach community-based agencies, but county administrative costs will also drain whatever support does come to them.

If targeting is in jeopardy in some states because of budgetary pressures it is also in jeopardy becuase of political pressures. The person who administers the Social Services Block Grant in one Southwestern state, for example, proposes a 95 percent cut in Title XX family planning services for fiscal 1983, down from nearly $260,000 to $12,500. If the cut is approved, 4 clinics will close.

This person is on record as being adamantly opposed to family planning services whatever the budget level. Another example comes from New England where one mayor announced that as soon as the grandfather clause was removed, he intended to use Community Services Block Grant funds for snow removal; he said maybe he would hire low-income people to do the job, but he had to consider the immediate political necessities.

Community groups with which we work point to the coming year as a time of more extensive change and based on the budget trends they see now, urge us to watch for the following:

- block grant funds being shifted away from the poorest recipients and away from low-income communities;
- block grant funds being shifted away from specific program areas to support more general state functions;
- block grant funds being shifted away from smaller scale, community-based delivery systems and towards larger, established delivery systems that may actually be less effective at reaching into the community;
- block grant funds being treated as general revenue sharing to local governments, thus making available resources more diffuse and potentially less effective;
- block grant funds being channeled away from the specific program areas because of political pressures.

Open, Democratic Decision-Making

One aspect of block grant implementation we can begin to comment on is the way in which the public was able to participate in planning for use of block grant funds. The National Governor's Association has reported:

> The decision-making process typically involved the federal administering agency, a limited number of state administrators, and the target population. In some of the programs the federal agency alone made most of the key decisions regarding funding allocations and program priorities with little of no state/ local government or public involvement.

We would agree on the basis of our preliminary findings that this kind of range in quality did exist for the hearings held on the 1982 block grants. But, the range was enormous, much wider than the NGA report would indicate when it claims that "if nothing else, the data provided by the states clearly and emphatically show that citizens were provided a multiplicity of opportunities to participate in the process of human services program development and decision-making."

While Title XVII of the Omnibus Reconciliation Act provided that states conduct "a public hearing, after adequate notice, on the use and distribution of the funds," the Secretary of Health and Human Services decided that states were exempt from those requirements in fiscal 1982. As a result, what hearings occured this year for the HHS block grants occured at state initiative.

The range is worth noting. An Institute for Local Self-Government study found that for the Community Services Block Grant, "Washington and Minnesota appear to be the only states that systematically sought out and involved recipients of services in implementation planning."

It observed that most states held a one-day hearing, usually on all block grants, and that only one fourth of them provided the opportunity for local governments, agencies and public interest groups to participate.

In Michigan where the block grants went into effect without any public hearings, pressure from a state-wide coalition on block grants prompted the state to hold consolidated hearings in six different cities on all the block grants. The citizens coalition agreed to handle public notice and other arrangements and so was able to reach out to a variety of constituencies.

Contrast that case with the case of Georgia described in the attached letter sent to members of Congress from a number of citizens including representatives of the Georgia Poverty Rights Organization and the League of Women Voters. It notes, "Even people who regularly monitor the state's activities on these issues were unaware that there was to be a hearing until three days before the scheduled meeting... Legislators we met in the hallway on the day of this "legislative" hearing were unaware that it was to take place... This was the only hearing scheduled by the State. "Next year the state is preparing one plan for all block grants to be described at a May 19 hearing in Atlanta. Participants in a state-wide coalition on block grants were not sure when we spoke with them last week whether they would have the opportunity to testify at that time nor whether they would be able to see the plan beforehand. Here, then, is an example of a hearing procedure involving one meeting in one city to discuss all the block grants with inadequate time for citizens to review the plan and no apparent system for responding to citizen comment.

From the reports we have, many other block grant hearings were held on short notice, with no release of state plans and little clarity of purpose. The public had less than one week's notice in Pennsylvania where testimony at the two hearings was by invitation only and invitations went to only one public interest group per hearing and to not consumers of programs or services included in the eight block grants. The public also had one week's notice in Texas. In North Carolina there were more than 1,000 people at each of five out of six regional hearings on block grants, but because the state agencies had not widely distributed their plans for the coming fiscal year, few present were able to comment on the proposals. In Rhode Island, public hearings were held two weeks ago on state block grant plans approved seven months before, in September. Participants in the state-wide coalition pointed this fact out to state officials who promise to convene another hearing shortly. In Tennessee, the state used its hearings more as a way to inform the public of expected cuts than as a way of soliciting comments on block grant implementation.

These anecdotes are cause for concern about fiscal 1983 planning and public participation. For citizens groups in Georgia the the minimal language in Title XVII was a standard against which they could measure their state's performance. Congress and the federal agencies ought to be providing better standards and more detailed guidelines.

One more story, this time from Ohio where some people when to the Department of Economic and Community Development to inquire about

about plans for small cities funding under the Community Development Block Grant. They knew the agency was soliciting reactions to its plan, but were told nothing was going on, so they went to the legislature to request hearings. The appropriate subcommittee held a hearing at which the state agency both testified and then joined the panel to ask questions of the witnesses. They also requested and received a full committee hearing which the state later claimed as its public hearing.

In the case of Ohio, as bad as these procedures sound, citizen involvement forced the agency to focus on aspects of its plan that needed definition or improvement. Most important, they got the agency to correct a proposed formula for economic distress that would have made communities which had always been distressed ineligible to receive block grant funds. Citizen involvement like this can substantially improve block grant planning and administration and that, finally, is the bottom line.

Accountability

The Ohio groups were also successful in getting the state to establish an evaluation committee composed of people affected by the program and of representatives of independent groups. The committee is charged to use a series of criteria including a breakdown of expenditures and of beneficiaries to evaluate the programs effectiveness. It is worth noting this kind of effort at the state level since federal regulations on the point of record-keeping and performance evaluation are so weak as to invite discontinuation of most data collection.

This laissez-faire stance in the HUD regulations for Small Cities is repeated in the HHS regulations for the 7 block grants in its bailiwick. There are no requirements that any data be collected on who was served, what services they received, no requirements that there be any data on which to base evaluation of program effectiveness. Past experience with block grant and revenue sharing programs has shown the difficulty of tracking block grant funds in the absence of adequate data. This is one of the most serious problems inherent in these block grants — it will be impossible to trace the expenditure of funds and to evaluate their impact.

State data collection has historically been none to good. A recent G.A.O. study on state A.F.D.C. administation found that three of the four states studied did not have sufficient data on which to base valid decisions on program budgets or to assess operational efficiency. Federal data requirements often make it easier for the state to conduct its own work. For example, though its record keeping had been improving, the officials in the state of Maryland did not know how many children were in state care until a national law required them to conduct a state inventory in 1980. Since then, one official notes, the information has provided the basis for improved state program planning and evaluation and the means by which resource needs can be justified to the state legislature. The state would not have conducted this inventory on its own initiative.

We have similar concerns about the application and reporting requirements, about the auditing and complaint procedures and about the nondiscrimination protections in the federal regulations. It is too soon to tell how well individual states are managing the block grants this year, given these relaxed guidelines. The recent G.A.O. report on management and administrative controls under Title XX in four states found problems common to all four:

- States financial management and internal controls had been largely ineffective in protecting against fraud, waste, and abuse,
- many of the problems appeared to be the "normal way of doing business",
- some of the conditions not only violated federal regulations, but also violated the states' own policies and procedures,
- some states failed to audit all or a vast majority of their contractors, and
- audits generally failed to meet the G.A.O. yellow book criteria for acceptable financial and compliance auditing.

The omens do not look good. State plans submitted to H.H.S. for the Low Income Energy Assistance Block Grant varied from 2 to several hundred pages. The least impressive plans merely parrotted the federal regulations; saying, for example, we will do outreach. If that's all that is required at the outset, then we would hope to see some foundation being laid for thorough oversight and performance review. We have no evidence that this is happening.

Uniform Language for Block Grants

Senator Durenberger, we appreciate the opportunity to comment on the draft of your "Uniform Block Grant Management Act" because of our basic commitment to see the principles of targeting, accountability, openness, and enforcement of basic rights and protections incorporated into any block grant enacted by Congress. But we must strongly caution that any such uniform language must be a floor and not a ceiling for federal standards and guidelines. Title XVII of the Omnibus Reconcilation Act, as inadequate as we felt it was, provided minimum, not maximum,standards. We believe that Congress must have the discretion to enact tougher provisions where those provisions are in its judgement necessary to meet the national goals and objectives embodied in particular programs. In fact, given that many of the specific protections in the block grants Congress passed last year are more rigorous than those in the superceding provisions of your bill -- given that even the provisions of Title XVII are more rigorous -- we would adamently oppose this bill if you were to submit it in its present form.

We are happy to discuss specific ways in which your proposal can be improved, but only if its purpose is changed to offer basic minimum federal standards for block grant administration. We commend your desire to provide states with clear and uniform guidelines, but we feel your goal can best be achieved by offering guidelines so superior to others already on the books, so inclusive, that the Congress will have little need to amend them. If your bill could reaffirm strong federal expectations for state targeting, accountability, openness, and enforcement of basic rights and protections, it would in fact become a national model, and one that we would be pleased to endorse.

One other general comment before I turn to particular provisions of this proposal. I could not help thinking as I was reviewing the draft, where are the people who live in these jurisdictions, the people who are to receive services funded under these block grants? Should not the purpose of this legislation also have something to do with them and their needs? It is finally citizens who will hold states accountable for their administration of block grants; insofar as the federal government does so it is only acting on their behalf. This proposal should begin with them and their interests: good, accessible information about programs states are administering, meaningful public participation in program planning and operation, effective citizen complaint procedures and civil rights protections.

Let me turn to the proposal itself and review some of our particular concerns.

1. Elimination of targeted funding for special programs or populations

Last year Congress determined that some programs were too important or some populations too vulnerable to leave adequate support for them to state discretion alone, so it explicitly designated those programs or populations for particular eligibility under the block grants. For example, rape crisis services under Preventive Health Block Grant received a set-aside of $3 million each year to be distributed on a population-based formula.

Or, for example, the Low-Income Energy Assistance Block Grant was limited so that federal funds could be spent only on households which had a recipient of public assistance, a recipient of certain veteran's benefits or someone whose income was below either 150 percent of the poverty level or 60 percent of the median state income.

This proposal by superceding earlier legislation, would allow states "to provide for any activity or service consistent with the purpose of the program," thereby allowing states to ignore those national priorities Congress considered worthy of special attention. We think this is an inappropriate limitation on Congressional discretion, and we see it as an attack on these special programs and populations already designated for assistance.

Targeting on the basis of need -- or income of special condition -- does not lend itself to uniformity. Each block grant should be targeted to be most effective at meeting the most serious needs it addresses, not spread so thinly that it has no impact at all. For example, primary care funds should be concentrated on the medically needy. Without this targeting critics will legitimately be able to say that block grant serve no identifiable purpose and that their continued existence should be reviewed.

2. Elimination of targeted funding for former grantees

Not only does Title XVII provide minimal protection for grantees under block-granted programs by mandating that grantees with track records of proven effectiveness be considered for continued funding, but several of the block grants include far more specific guarantees for continued support of programs serving low-income populations or populations with special needs.

This proposal would appear to supercede language on funding guarantees in block grant legislation passed last year and to limit Congressional discretion to set such guarantees in future block grants. It would affect such agencies as community health centers under the Primary Care Block Grant and mental health centers under the Mental Health Block Grant -- demand for their services is dramatically increasing. We think this is an inappropriate limitation on the authorizing committees and their ability to identify effective vehicles to deliver program assistance.

3. Weakening of program assurances protecting beneficiaries

Some of the block grants passed last year require recipients to make important program assurances to qualify for federal funding. For example, the Maternal and Child Health Block Grant (Title V) requires assurances regarding fair methods of allocation, substantial provision of health care services to mothers and children, continuation of special projects crucial to maternal and child health, reasonable charges, and effective coordination with other programs on which children depend.

This proposal under Section 1744 (f) would eliminate the requirement of accountability. Recipients would be entitled to federal funds so long as their applications assured that "the proposed use of the funds is consistent with the purposes of the program." Under this proposal a federal agency would have virtually no information about the fundamental nature of a recipient's program before ruling on its application. Last year, authorizing committees determined that guarantees and assurances were essential to certain programs. This language wipes out those guarantees and assurances wholesale.

4. Weakening of public hearing requirements

Even Title XVII contained some public hearing requirements giving citizens the right to participate in the design and implementation of block grant programs. We have already noted how groups in Georgia depended upon its provisions to make their case for adequate notice, timely prior release of state plans, and other state outreach efforts.

This proposal would weaken these already modest requirements under Section 1744 (e) by eliminating timely notice provisions. It should be replaced by a provision assuring public hearings that give the public an opportunity to assess program needs, review program priorities and evaluate program effectiveness. As we have already noted, this process can yield enormous benefits. Block grant theory makes its case for close-to-home government based on this kind of citizen involvement; public participation should be explicitly mandated.

5. Presumption of civil rights compliance

Recipients of federal funds are subject to civil rights requirements, including protections for the handicapped, prohibitions against age and sex-based discrimination and Title VI provisions under the Civil Rights Act of 1964.

This proposal under Section 1751 would make these civil rights protections virtually unenforceable by presuming that the recipient is in compliance with civil rights guarantees and other cross-cutting requirements. Moreover, a recipient's compliance reports and assurances would be given undue weight in any compliance proceeding. Once the lead agency on a cross-cutting requirement had certified a recipient to be in compliance the agency administering the funds would be unable to reverse that certification, even if an intended beneficiary were to prove the recipient to be in violation of federal civil rights requirements.

Civil rights protections are only as meaningful as their enforcement;the provisions of Section 1751 make a mockery of the vigorous pursuit of civil rights enforcement.

6. Other guarantees needed

Reports

If the public and the legislature are to know what impact block grant funds are having they must have access to adequate reports listing projects funded, their locations, amount of project grants and their primary beneficiaries. They must have that inforamtion at both the beginning and the end of the year in order to evaluate the effectiveness of that block grant and determine whether changes ought to be made in its design.

Record keeping

To produce such reports and monitor targeting, states should be keeping the necessary data to describe populations and areas served.

These reports should be open to public scrutiny in a central location.

Complaints

Experience with past block grant and revenue sharing programs has shown that the most effective, unbureaucratic way to ensure compliance with national legislation is to provide a fair, thorough hearing for citizen complaints. Several of last year's block grants provide for complaint procedures, in fact they place the heavy burden of proof on citizens by presuming compliance. We urge the Subcommittee to set up a process whereby such complaints may be given thorough hearing.

* * * * * *

In conclusion, I want to thank this Subcommittee for its attention to all of these issues. In continuing to examine the record on state administration of last year's block grants it is performing a valuable oversight function, one that is badly wanting in other quarters. In continuing to encourage discussion about uniform federal standards for state administration of block grants it is raising a vitally important set of questions.

Finally, Senator Durenberger, I want to express my appreciation to you in particular for your open-minded inquiry into these subjects. Your insistence on a "new federalism" that recognizes differences in fiscal capacity and effort among states has been an important contribution to the debate this year, since they are differences that go to the heart of these proposals.

We think they are differences that make it incumbant upon the federal government to continue playing a predominant role in addressing national problems like poverty, unemployment, and discrimination.

March 8, 1982

We are writing to express to you our dismay and dissatisfaction with the State of Georgia's record so far in handling the block grants created by Congress. A recent "public" hearing on the Preventive Health and Health Services Program and the Mental Health, Alcohol and Drug Abuse Program reflects the State's apparent unwillingness to give the public a meaningful opportunity to participate in decision making, or even to know what decisions have already been reached. The State's actions certainly show contempt for the opinions of the public and possibly even violate the requirements of the Omnibus Budget Reconciliation Act of 1981.

Titles IX and XVII of the Omnibus Budget Reconciliation Act require the State to follow certain procedures in accepting the block grants. According to Section 1905 of Title IX, Subtitle A, Part A, regarding the Preventive Health and Health Services Block Grant, the State must submit an application which contains assurances that the legislature of the state has conducted public hearings (emphasis added) on the proposed use and distribution of funds. The section further requires that the chief executive officer of the state furnish, as a part of the application, information on the programs and activities to be supported and services to be provided. The description is to have been made public within the state in such manner as to facilitate comment from any person during the development of the description and after its transmittal. Part B, Section 1915 imposes exactly the same requirements for the Alcohol and Drug Abuse and Mental Health Services Block Grant.

Title XVII, Subtitle C, Section 1741 further requires that each State prepare a report on the proposed use of block grant funds, including (1) a statement of goals and objectives, (2) information on the types of activities to be supported, geographic areas to be served, and categories or characteristics of individuals to be served, and (3) the criteria and method established for the distribution of the funds, including details on how the distribution of funds will be targeted on the basis of need to achieve the purposes of the block grant funds. Beginning in the fiscal year 1983, the report must include a description of how the State has met the goals, objectives, and needs for the previous fiscal year as identified in the report prepared for that previous fiscal year. The report must be made public within the State on a timely basis and in such manner as to facilitate comments from interested local governments and persons. No State may receive block grant funds for any fiscal year until the State has conducted a public hearing, after adequate public notice, on the State's proposal as set forth in the report.

Georgia's response to these requirements has, in our view, been totally inadequate:

The hearing was inadequate as to notice, timing and accessibility to most Georgians. Even people who regularly monitor the State's activities on these issues were unaware that there was to be a hearing until three days before the scheduled meeting. The only notice of the hearing was a legal notice in two newspapers two weeks prior to the hearing. One of the notices appeared in the obituary section, and one appeared in the sports section. (Copies of these notices are attached for your information). Notices were not sent to advocacy groups known to have an interest in these matters. Legislators that we met in the hallway on the day of this "legislative" hearing were unaware that it was to take place. In fact, it had been scheduled for Friday afternoon after adjournment, a time when most of them have already left the Capitol for the weekend. The result was that only one legislator, the one who chaired the hearing, attended. This was the only hearing scheduled by the State despite the fact that Georgia encompasses a very large geographical area and that many people concerned about the use of the block grant funds would be unable to reach Atlanta for the hearing.

Participation in the hearing was hampered for those lucky enough to learn of it by the fact that the information alleged in the notice to be available through the health departments was not, in fact, available. A call to the Fulton County Health Department the week of the hearing revealed that the Commissioner was not even aware that such a hearing was to occur and did not have available any information for distribution to the public. Attempting to obtain the information directly from the Department of Human Resources, Mrs. Frances Pauley went first to DHR's Budget Officer, who was in a meeting, then to the Director of the Physical Health Division. She was told by the Director to go back to the Budget Officer. Upon her return to that office, she finally received a six-page document. Other advocates experienced similar difficulties in tracking down the information which had been prepared.

The information prepared by the State was insufficient to allow meaningful comment on its plans. We invite your attention to the attached document. As you can see, it gives only the sketchiest descriptions of the programs, provides little information as to exactly what services will be provided, gives no statistics on numbers and characteristics of clients served, or actual costs of providing services, no goals and objectives, and scanty information on the details of how funds will be targeted on the basis of need. In addition, the budget figures given were disembodied numbers apparently reflecting a nine-month federal share allocation, with no information on the numbers of state dollars allocated to each area. The previous year's budget was not given, so the public could not know whether a greater or smaller share of resources was allocated for an activity in 1983. When Mrs. Pauley asked for additional information, she was told by the Budget Officer that there was no other information readily available and that it would take a computer print-out three feet high to provide what she wanted.

Only two other efforts have been made by the State to provide the public an opportunity to participate in the decision making on the block grants. One was a hearing held before the Department of Human Resources Board subcommittees in June of 1981 before there was very much information as to what the block grants would look like on the federal level. The other was a meeting held by DHR in September of 1981 during which the Department presented only broad outlines of its plans for use of the funds.

In summary, we believe the State has failed to provide adequate opportunity for participation by the public in decisions on the block grants. Information has not been made public in such a manner as to "facilitate comment from any person". In fact, the State might as well have tried to preclude comment from the public. Even today, we do not have meaningful information on what the State intends to do with the funds. We urge you to take action to assure that this abuse is corrected so that we and our elected representatives can have a voice in the decisions. Thank you for your attention to our concerns.

Sincerely,

Attachments

[From the Atlanta Constitution, Feb. 5, 1982]

NOTICE OF PUBLIC HEARING

In accordance with the Omnibus Budget Reconciliation Act of 1981, the public is hereby notified that:

(1) A public hearing by the Georgia General Assembly on the proposed use of the Alcohol, Drug Abuse and Mental Health Services Block Grant and the Preventive Health and Health Services Block Grant for Fiscal 1983 will be held at 1:00 P.M. in Room 341 of the State Capitol on Friday, February 19, 1982.

(2) At such hearing, citizens shall have the opportunity to provide written and oral comments to members of the Georgia General Assembly concerning such proposed use.

(3) The Georgia Department of Human Resources has been designated as the single State agency to administer these programs in Georgia and has prepared its report on the proposed use of these block grants. A copy of the summary report on Preventive Health and Health Services will be available in county and district health offices and the summary on Alcohol, Drug Abuse and Mental Health will be available in community mental health centers and district health offices. These reports will be available for review by Wednesday, February 10, 1982.

(4) Citizens desiring to submit written comments may mail such submissions to:

LEGISLATIVE BUDGET OFFICE,
Atlanta, Georgia.

Senator Durenberger. We appreciate all the witnesses who have made contributions to this hearing.

The hearing is now adjourned.

[Whereupon, at 12:20 p.m., the subcommittee recessed, to reconvene at the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

American
Planning
Association

1776 Massachusetts Ave. NW
Washington, DC 20036
Phone 202.872.0611

June 15, 1982

Senator David Durenberger
Chairman
Subcommittee on Intergovernmental Relations
Senate Governmental Affairs Committee
Washington, D.C. 20510

ATTN: Ms. Velora Washington and Ms. Pam Hess

Dear Senator Durenberger:

We are grateful for the opportunity to comment on the Uniform Block Grant Management Act of 1981, still under review and consideration.

We are supportive of the provisions of the Act and wish to make some recommendations which we believe will strengthen it.

The American Planning Association (APA) is a national organization of 21,000 members including city, regional and state planners, elected and appointed officials at all levels of government, professional practitioners, educators, interested citizens and students. Our membership belongs to 46 Chapters covering virtually every state and Congressional district. In addition, within APA are fourteen divisions that bring together members with interest and expertise in particular aspects of planning; such as the metropolitan and regional planning division, which I head and on whose behalf I wish to comment on the Block Grant Act.

The American Planning Association at its annual meeting in Dallas last month, adopted a policy statement in regard to New Federalism which is pertinent to Block Grant programs. The following are APA's policies on New Federalism:

I. Framework

The mission of the American Planning Association is to advance the art and science of planning and the use of planning procedures at local, regional, state and national levels. The objective is to improve the decisions that are made by the many publics which establish goals to be reached in physical, economic and social development of the community, devise means to reach those goals, and use their resources to implement decisions.

The measures of good planning are effectiveness in resolving conflict among goals and reconciling competing priorities, the creativity of plans toward achieving goals, effectiveness of the means employed and economy in the use of resources.

Good planning in our democratic society requires that necessary public actions must respect private and individual preferences; that necessary state and national actions must respect local decisions; that necessary action by majorities must respect minority interests; that the necessity of a free market must respect the limited public regulation that makes it possible. This mission of APA is the foundation for the following framework for policy in regard to New Federalism:

1. The New Federalism must recognize, require and provide for the role of planning and new planning initiatives at all levels of government. These are made necessary by the reallocation of responsibilities and are essential in order to ensure a rational process for needs identification and resource allocation.

2. The enhanced role of states under the New Federalism requires a strong state planning function institutionalized within state government and structured for the benefit of the governor, state agencies, and the legislature. State planning should provide for a rational framework to deal with the nation's domestic problems by integrating adopted local, regional, state and national goals.

3. The New Federalism recognizes the issue of the relative roles of state and local governments and provides for a pass-through system to ensure that local governments continue to have the responsibility for delivering services in those states where they had had that responsibility. The New Federalism is silent, however, on the role of metropolitan and regional agencies in providing an important forum for coordinating planning among various levels and units of governments, operating authorities and citizen groups. Recognition must be extended to metropolitan and regional planning as well.

4. Federal legislation and regulations to implement the New Federalism must include requirements that maintain the Congressional intent of programs to be transferred. This calls for the establishment of standards for health care, for income maintenance, for public transportation, for housing and other urban needs to be provided by states and localities. These standards should be built into the planning components by Congressional mandates.

II. APA's Policy on the New Federalism

The Board of Directors has adopted the following positions and recommendations regarding the New Federalism:

1. The planning community is committed to help to define the appropriate roles of government, including:

   - a clear and equitable assignment of governmental functions and of authority to perform them;
   - shared responsibilities, duties, and authority;
   - interaction to achieve improved functional program performance as well as overall governmental performance; and
   - interaction to enable programs to meet the needs of geographic areas and groups of people across governmental boundaries, economically and effectively.

   As much as possible, each level and unit of government should be allocated sufficient powers and resources to carry out its responsibilities.

2. The division of governmental responsibilities should be done in a carefully planned manner, using a well considered set of criteria establishing the federal role. The New Federalism must not relieve the Congress and the Federal government from their responsibility of maintaining the national interest, including:

   - economic and social equity;
   - energy and resource development and conservation;
   - education;
   - employment and a sound economy; and
   - preservation and enhancement of the quality of the environment.

   The Federal government must maintain an active role and continue programs that recognize these issues of national interest.

3. New Federalism is not a substitute for national urban policy. A strong national urban policy requires long-range, interrelated national goals and policies in regard to growth, settlement, land use, energy, environment, transportation and economic, social and cultural concerns. A national urban policy is an essential framework for state and local actions in implementing urban programs under the New Federalism.

4. Adequate resources must be provided as an integral part of the New Federalism to ensure the capacity of institutions, state and local, public and private, to cope with the added demands for urban services they are now asked to provide. This is even more essential in light of recent cuts in Federal funding for such services.

5. The American Planning Association supports Federal responsibility for all public assistance programs. This is generally consistent with the concept of Federal responsibility for a social safety net, although it would expand the current Administration's own definition of that net. Specifically, food stamps and Aid to Families with Dependent Children (AFDC) would be added to the list of fully Federal responsibilities, as well as, perhaps, housing assistance payments to individuals. The welfare system, today, has become much more than just the traditional "welfare check." Medicaid, proposed by the President for full Federal responsibility under the program swap proposal in the 1982 State of the Union Address, also is part of the social safety net concept along with basic social security benefits, supplemental security income, Medicare, unemployment, and Federal pensions. Nationwide equity among individuals and the importance of these major income flows in the national economy make these safety net programs essential national responsibilities.

6. The Federal aid system has become a major source of revenue for state and local governments in the United States, mildly equalizing the capacities among states to undertake the many programs and meet the many standards established by the Federal government. As this major source of revenue is withdrawn, the differences in fiscal capacities among the states will increase substantially. Thus, in line with its policy that each level of government should have the authority and capacity to perform the functions assigned to it, the American Planning Association supports the concept of a permanent federalism trust fund designed to help equalize tax wealth among the states.

From the point of view of metropolitan and regional planning, I wish to elaborate on the policy statement in two subject matters, the role of government in block grant management and the issue of block grant funding:

1. The Role of Government in Block Grant Management

   a) The roles of state and local governments in the administration and financial management of block grants should be determined jointly by them.

b) State and local agreements on block grant management should recognize the important role that regional councils can play in relating local interest to state programs. Federal legislation should recognize and encourage the role of regional councils in the management of block grants.

c) State and local governments should be encouraged to develop cooperative efforts and funding for interstate metropolitan areas.

d) Federal legislation should give preference to local general purpose governments and regional councils as the channels for planning and implementing block grant programs, in contrast to special agencies not acountable to the electorate.

2. Block Grant Management

a) A pass-through or similar formula should be required to maintain direct federal funding to local governments and regional councils for existing categorical programs.

b) Funding allocations should be determined jointly by the states, the local governments and the regional councils.

c) The relative size of local governments should be recognized in allocating block grants to these governments.

d) Technical assistance should be an eligible activity in state block grants.

Thank you for the opportunity to comment on this important legislation.

If the APA can provide additional information, please do not hesitate to call George T. Marcou, AICP, Director of National Planning Policy.

Sincerely yours,

Jerry Coursey

Jerry A. Coursey
Head
Metropolitan and Regional
Planning Division

AMERICAN PUBLIC HEALTH ASSOCIATION
1015 Fifteenth Street, N.W., Washington, D.C. 20005 • (202) 789-5600
Stanley J. Matek, M.S., *President*

May 18, 1982

The Honorable David Durenberger
Chairman
Subcommittee on Intergovernmental Affairs
Senate Committee on Governmental Affairs
507 Carroll Arms Building
301 First Street, N.W.
Washington, D.C. 20510

Dear Senator Durenberger:

As an organization representing a combined national and affiliate membership of over 50,000 public health professionals and community health care leaders, we ask that our opposition to the "Uniform Block Grant Management Act of 1982" be recorded as part of the testimony for the public hearing of the Subcommittee on Intergovernmental Affairs held on May 11, 1982.

As members of the Coalition on Block Grants and Human Needs, we support the testimony given by Ms. Sandy Solomon before the Subcommittee. APHA concurrs with the concerns expressed by the Coalition with regard to the use of block grant funding as a mechanism for indiscriminate reduction of non-military domestic program funds.

We feel that states should be held accountable to meet federal performance standards and that local health agencies must be systematically involved in the development of state plans for the utilization of federal block grant monies. In addition, enforcement of basic rights and protections should be included into any block grant enacted by Congress.

Finally, we are opposed to any effort which would wipe out in one step the targeting provisions which have carefully specified needy populations and have been developed after much public debate and long Congressional study.

The approach of this proposed legislation is put forth in the name of increasing state flexibility, but reveals an ignorance of the complexity of our nation's health and human problems. It would contribute to the further blurring of the specific federal responsibilities for assuring that critical services meet the needs of those who truly need them.

Very truly yours,

Stanley J. Matek, MS
President

Stanley J. Matek

Enclosure

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June 1, 1982

Ruth Doerflein, Chief Clerk
Subcommittee on Intergovernmental Relations
Committee on Governmental Affairs
U. S. Senate
Room 507, Carroll Arms Building
301 First Street, N.W.
Washington, D.C. 20510

Re: Statement for the Hearing Record on May 11, 1982 Hearing on Implementation and Management of Block Grants by the Senate Governmental Affairs Subcommittee on Intergovernmental Relations

Dear Ms. Doerflein:

This letter is to transmit the enclosed copy of a Statement on the proposed draft Uniform Block Grant Management Act of 1981 on behalf of the undersigned national private, nonprofit voluntary human services sector organizations for inclusion in the hearing record of the May 11, 1982 hearing on implementation and management of block grants, held by the Subcommittee on Intergovernmental Relations of the Senate Committee on Governmental Affairs.

As noted, this Statement is being submitted for inclusion in the hearing record and upon the specific agreement by the Subcommittee Chairman to hold the hearing record open for receipt of this Statement in response to the request for this purpose of The Child Welfare League of America made in its oral testimony presented at the hearing.

If you have any questions or need any further information, please do not hesitate to let me know.

Sincerely,

L I Hewes III

Laurence I. Hewes, III
WALD, HARKRADER & ROSS

Attorneys for Boy Scouts of America,
  Boys' Clubs of America,
  National Board, YWCA of the USA,
  The Child Welfare League of
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Statement on the Proposed Draft Uniform Block Grant
Management Act of 1981 by the Undersigned Grants and Contracts
Project Members for Inclusion in the Hearing Record on
Implementation and Management of Block Grants

Senate Committee on Governmental Affairs
Subcommittee on Intergovernmental Relations

Hearing Held on May 11, 1982
Room 357, Russell Senate Office Building
Washington, D.C.

Boy Scouts of America
Boys' Clubs of America
National Board, YWCA of the USA
The Child Welfare League of America
The Salvation Army

By: ______________________
Laurence I. Hewes, III

WALD, HARKRADER & ROSS

June 1, 1982

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June 1, 1982

Statement on the Proposed Draft Uniform Block Grant Management Act of 1981 by the Undersigned Grants and Contracts Project Members for Inclusion in the Hearing Record on Implementation and Management of Block Grants

Senate Committee on Governmental Affairs
Subcommittee on Intergovernmental Relations

Hearing Held on May 11, 1982
Room 357, Russell Senate Office Building
Washington, D.C.

I. INTRODUCTION

This Statement is submitted on behalf of the undersigned national voluntary organizations for inclusion in the hearing record of the hearing held on Tuesday, May 11, 1982 in Room 357 of the Russell Senate Office Building concerning the implementation and management of block grants[1] and consolidation programs,[2] by the Subcommittee on Intergovernmental Relations of the Senate Committee on Governmental Affairs. In addition, the Child Welfare

---

[1] Sec. 1741(b)(1) of the Omnibus Budget Reconciliation Act of 1981, Pub. Law 97-35 (Aug. 13, 1981) defines a block grant. Some programs popularly called block grants may be interpreted (and have been by HHS, for example) as not being block grants for purposes of the Act but of being, instead, consolidation programs.

[2] Sec. 2352(a) of the Act, Pub. Law 97-35 (Aug. 13, 1981) defines the so-called social services "block grant" as a consolidation program. Sec. 2192 does about the same thing for programs consolidated into what is now popularly called the maternal and child health services block grant.

League of America, Inc., in its testimony, asked that the hearing record be kept open for inclusion of this analysis of Sen. Dave Durenberger's proposed draft Uniform Block Grant Management Act of 1981. Chairman Durenberger generously agreed to that request.

The undersigned national nonprofit, voluntary, social and human service organizations have a record of involvement in federal financial assistance and are deeply involved in a wide variety of social and human program research and service delivery. These private, nonprofit, charitable organizations and their members constitute an important portion of the voluntary nonprofit sector ("voluntary sector"), have scores of local, community based corporate members and chapters, and millions of individual members. Many of the local nonprofit corporate members and chapters operate grass roots programs which are financed privately and publicly.3/

These national membership organizations are:

Boy Scouts of America
Boys' Clubs of America
National Board, YWCA of the USA
The Child Welfare League of America
The Salvation Army

3/ *Issues and Problems Associated with the Administration of Federal Financial Assistance Programs by Non-Profit, Voluntary Social Service Organizations*, June 14, 1965 (hereinafter "*1976 Report*"), p. 1.

The need for the services provided by such organizations is greater than the funds available. With the retrenchment of government, both federal and state, in these areas, it is even more critical for the voluntary sector, and the rest of the nonprofit sector, to expand existing programs to meet the increased needs of the public which are no longer being met by the federal government.

II. OVERALL ASSESSMENT OF THE DRAFT UNIFORM BLOCK GRANT MANAGEMENT ACT OF 1981

We commend the Subcommittee and its Chairman, Sen. Durenberger, for interest in improving the management and implementation of block grants and related programs. We believe this subject needs further study, as shown by the experience with block grants and consolidation programs thus far.[4]

The current draft bill should, and we are sure, will, be used for discussion purposes with respect to such central block grant issues as use of funds; public involvement and participation in the planning, use, management and administration of block grants and consolidation programs; federal reporting; audit requirements; administrative expenses and enforcement matters.

With respect to a number of these issues, the current block grant management provisions of Title XVII of the Omnibus Budget

---

[4] See Statements for the hearing record by the Child Welfare League of America, National Conference of State Legislatures, U.S. Conference of Mayors, National Association of Counties, National Association of Social Workers and Coalition on Block Grants and Human Needs and others on May 11, 1982 before the Subcommittee. See also GAO Report B-206864, "Allocation of Funds for Block Grants with Optional Transition Periods (GGD-82-65)".

Reconciliation Act of 1981, P. Law 97-35 (Aug. 13, 1981) ("Title XVII" and "The Act") are stronger, clearer and, in our judgment, more desirable than those in the draft legislation. Implementation provisions of the block grants and related programs coupled with Title XVII provide a better system of protection for beneficiaries of services than does the draft bill. Both, however, need strengthening.

The Project could not support the draft if it were introduced in its present form, but understands that the draft is open for discussion. With this in mind as a starting point, this Statement deals with some of the basic issues concerning the draft bill.

III. DISCUSSION OF THE BASIC ISSUES IN THE DRAFT UNIFORM BLOCK GRANT MANAGEMENT ACT OF 1981

In the recent enthusiasm for achieving budget reduction goals and turning federal responsibilities over to the states, not enough focus has remained on the critical role of local nonprofit service providers, needy individuals and the role of the federal government.

1. Use of Funds

Authorizations and appropriations for the block grants and consolidation programs, albeit less than needed, should be used to help solve the problems which gave rise to the categorical grant programs in the first place. With such a provision added to the block grant law, voluntary sector and other nonprofit organizations which provide these critical services will be able to continue to function to help meet critical needs. One problem the draft bill does not address has been the creation of great uncertainty as to funds to be provided, to whom they will be provided and who will provide them. The result has been to disrupt the nonprofit voluntary, human services sector at the very time it is being called upon to shoulder a greater burden.

2. Public Involvement

Title XVII defines block grants and requires that public hearings be held by states regarding their plans for use of block grant funds and program development. However, some of the consolidation programs popularly called block grants, such as social services, appear to be defined by the Act, and treated by agencies, such as HHS, as not being block grants and therefore not subject to the Act's hearing requirement.[5]

Title XVII also requires that each state develop and publish for public comment a report setting forth its proposed use of block grant funds. This requirement, unlike the public hearing requirement, is applicable to all the new so-called "block grants," including social services and other of the Act's consolidation programs.

The draft bill's provisions which purport to deal with these subjects of hearings and report for public comment are found in proposed section 1744. These provisions are more general than those in Title XVII and do not expressly require public hearings and reports subject to public comment. In one sense the draft bill's provisions in this regard are superior to Title XVII in that they apply to all the so-called block grants, including consolidation programs like social services. Ultimately, though, the draft bill is weaker in this area than Title XVII because the draft bill does not expressly require hearings and reports for comment. Whether or not they occur is up to the states. This is a deficiency which should be corrected. Testimony at this Subcommittee hearing has also demonstrated that tighter federal control is needed over the hearing process as presently conducted by states, which in a number of instances has been represented as being perfunctory and otherwise inadequate.

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[5] Sec. 1741(b)91), P. Law 97-35 (Aug. 31, 1980); 46 Fed. Reg. 48582 at 48583 (Oct. 1, 1981).
See Comment on U.S. Department of Health and Human Services Interim Final Rules on Seven Block Grant Programs, Nov. 30, 1981, on behalf of organizations in the voluntary sector, in HHS's files submitted in response to request for such comments in HHS's Interim Final Regulations, 46 Fed. Reg. 48582 (Oct. 1, 1981).

Public involvement requirements in Title XVII and in the draft bill should be strengthened to make sure that the voluntary sector beneficiaries and the public generally are thoroughly consulted and heard concerning use of block grants and consolidation funds. This effort should be made to go beyond formal public hearings and publication of reports for comment, to include formation of advisory committees from among all those interested and affected as well as informal, continuous consultations and involvement of those concerned in planning from the earliest stages.

These kinds of requirements should be included in Title XVII (and even if not there, in agency regulations, such as HHS's), and in the draft bill. State and local officials traditionally rely heavily on local voluntary sector organizations to deliver the services financed by the programs in question. Involvement from the earliest stages on is easy and makes for better implementation and cooperation.

3. Federal Reporting Requirements

The requirements for reporting by the states to the federal government on utilization of block grant and consolidation funds is inadequate in both the existing law and in the draft bill and should be strengthened. Without solid, detailed basic uniform reporting requirements, no common, usable data will be generated and the extent of need and whether and to what extent the block grant and consolidation program funds meet that need will not be known.

4. Audit

The audit provision in the draft bill is unnecessarily long and complex. The provision in Title XVII, sec. 1745, is somewhat more adequate.

The cost of audits required by Title XVII and by the draft bill should be allowable, as is the case under normal federal cost principles in OMB Circulars A-110, A-21 and A-122 (and agency implementing regulations), government contracting and application of generally accepted accounting principles.

Because of the uncertainties and weaknesses in this provision of the draft bill, we urge deletion of it until more research has been done on the audit issue, including the report of the new GAO Audit Policy Advisory Committee.

Proposed sec. 1748(b) of the draft bill limits administrative costs to recipients (states) to 10% of the amounts they receive (a separate problem discussed below), and then, in proposed sec. 1748(c), defines administrative costs to exclude the cost of the proposed bill's required independent audit. Thus, administrative cost funds cannot be used to pay for independent audits required by the draft bill. The funds set aside to cover the costs of such audits by sec. 1749(h) of the draft bill are insufficient and will be exhausted. When that occurs, the only sources remaining to pay for such audits will be program funds or other internal funds of the organization, thus further weakening such organizations financially.

Although this audit requirement and the associated cost restrictions are difficult enough problems, subrecipients, many of whom are members of the voluntary sector and who are given no voice in the draft bill, can also be asked to undertake and pay for audits out of their pockets under the draft bill. While an audit to be undertaken anyway may be acceptable under the draft bill, this is an uncertain procedure.

5. Administrative Expenses

As noted above, proposed sec. 1748(b) of the draft bill, limits administrative expenses for state and local government recipients to 10% of the amounts they receive. We urge that this provision be removed and replaced with normal, uniform cost principles provisions or generally accepted accounting principles concerning administrative costs. If, however, a ceiling is felt to be necessary, such necessity ought to be justified and, if justified, an allowable administrative cost ceiling established of at least 25%, which ought to be fully and separately funded.

Many carefully operated public and voluntary sector and other nonprofit organizations operate within or close to such a 25% ceiling. Before deciding on any ceiling, though, it should be remembered that no such ceilings are imposed on commercial organizations when doing business with the government and that such organizations usually have administrative costs in excess of 60%.

Experience with the few other federal programs with arbitrary administrative cost ceilings for states and local governments and others, such as existed in certain CETA Public Service Employment programs, shows that such state and local governments limit subrecipients to the same or lower administrative cost ceilings, or provide them only with what, if anything, may be left from the original funds allocated for such costs within the original percentage. Administrative costs of the most prudently and conservatively managed voluntary organizations are more than 10%. Limiting administrative costs to 10% puts public and private organizations in the position of having to reduce essential management, pay inadequate salaries and of not being able to attract or keep top people. The net result is to weaken management. The approach of placing a ceiling on administrative costs has a certain initial cost savings appeal but, in the end, is counter-productive and should be eliminated from the draft bill, or, if found to be essential, such ceiling should be increased to at least 25% as noted above.

6. Federal Uniform Administrative Requirements and Cost Principles

a. In General

The block grants and conslidation programs in the Act should be subject to the basic rules of management and cost found in OMB Circulars A-102, A-110, A-122 and A-87, among others and the agency implementing regulations issued thereunder. These uniform rules, have been worked out over time with state and local governments and with the voluntary sector and other nonprofit organizations, are based on experience and reflect a fundamentally fair way of operating, under standards that are uniform and predictable. These circulars and implementing regulations provide basic protection for all parties and create the basis for sound, uniform and efficient management. Best of all, they result in less, not more, regulation. The method proposed in the draft bill (and in the Act and agency regulations) will result in a crazy quilt of differing, incomplete and conflicting regulations.

b. Enforcement of National Policy Assistance Standards

Proposed section 1751 of the draft bill presumes recipients to be in compliance with the range of basic national policy standards, including those prohibiting discrimination on the basis of sex, race, handicap, religion, national origin and others.

First, substantial evidence built up over time, led to enactment of these standards and the need to enforce them by the federal government. This situation has not changed. The problems these standards address are truly national problems and should continue to be dealt with by the federal government, especially when federal funds are involved. While, in some situations, private individual or class actions can be brought, it is too onerous a burden to expect individual citizens to try to enforce national law to achieve national policy goals.

Second, this sort of provision is not essential to the draft bill and is likely to create unnecessary opposition to it.

IV. SUMMARY

The undersigned agencies cannot support the draft bill in its present form for the reasons stated above. However, we wish to express our appreciation to the Subcommittee for the opportunity to present our views. As expressed throughout this Statement, we believe that effective use of block grant and consolidation programs must require involvement of the voluntary sector and other nonprofit service providers and related organizations and affected citizens from the start. This has not been the case thus far.

We urge the Subcommittee to involve the voluntary sector in addressing the utilization, effectiveness and efficiency of block grants and similar programs.

Respectfully submitted,

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Attorneys for Boy Scouts of America, Boys' Clubs of America, National Board, YWCA of the USA, The Child Welfare League of America and The Salvation Army

BLOCK GRANTS:
A NEW CHANCE FOR STATE LEGISLATURES TO OVERSEE FEDERAL FUNDS

Legislative Finance Paper #15

February 1982

Barbara Yondorf, Staff Associate
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INTRODUCTION

The primary objective of this Legislative Finance Paper is to provide a review of state legislative activity regarding the new consolidated federal aid programs (commonly called block grants), which were enacted in 1981. The paper also: 1) reviews the general features and requirements of the block grants; 2) discusses the present issues and problems that state legislators have identified regarding block grants; and, 3) outlines the new FY '83 Administration budget proposals consolidating some existing programs into eight new block grants and modifying other existing programs.

While we prefer to call them consolidated federal aid programs rather than block grants, we lapse into the more commonly used "block grants" because of ease of usage. The issues and problems section of this paper explains some of the reasons why "block grants" may be a misnomer for these programs.

The information in this paper regarding individual state actions about the 1981 consolidated federal aid programs was gathered through two NCSL fiscal surveys during November and December of 1981. The written survey information was supplemented by telephone calls as necessary. We did not include actions by any state executive branch regarding block grants, and 1982 state legislative action is being monitored and will be reported later.

The NCSL Fiscal Affairs Program staff thank all of the state legislative fiscal officers and their staffs for contributing the information presented herein. In addition, we appreciate the assistance of our NCSL Washington, D.C., colleagues.

We encourage the readers of this paper, especially state legislators and legislative staff, to comment on the contents of this paper so that any further research might better address state legislative needs. If recent legislative action has altered what we depict as your state legislative role regarding block grants, please forward that information to us.

I. CONSOLIDATED FEDERAL AID PROGRAMS
(BLOCK GRANTS):
BACKGROUND AND DESCRIPTION

A. Background

Federal aid to state and local governments has taken several forms over the past two decades--from categorical grants to general revenue sharing to block grants. Until recently, whatever the form of federal aid, the amount of money flowing to the states from Washington, D.C., increased on the average by 15 percent each year. As a consequence, state and local governments became increasingly dependent on federal resources, especially for the funding of social programs even though own source income grew significantly and accounts for about 75 percent of all state government revenues. In the late seventies, the rate of growth in federal aid to state and local governments began to slow and in 1982 state and local governments will actually receive less federal aid than they did in 1981.

The era of rapidly growing federal grants-in-aid began in the 1960s with the proliferation of categorical grants designed by Congress to provide state and local governments with federal funds earmarked for a wide variety of narrowly defined programs. Both state and local governments became increasingly disenchanted with the federal grant-in-aid program, complaining about: 1) the lack of flexibility to tailor programs to local needs; 2) the onerous bureacratic requirements of program administration; 3) the federal government "luring" state and local government into starting programs by providing 100 percent federal funding in the earlier years, but then adding state match requirements later; 4) increasingly, agency grantees were in the position of being held accountable to Washington, D.C., more than to state and local elected officials, 5) state legislatures found themselves by-passed by state agencies; and, 6) local governments were applying directly to the federal government for aid.

In an effort to improve state-federal relations the Nixon Administration, in 1972, introduced General Revenue Sharing (GRS) to provide state and local governments with federal aid that could go directly into their general fund and be appropriated at their discretion. State and local government considered GRS to be the most effective form of federal assistance. In 1980, however, the program was eliminated for states.

Coupled with the GRS initiative was the block grant concept. Block grants can be defined as federal funds which are distributed to state and local governments to accomplish a broad range of program objectives. Ideally, from the view of state and local government, the federal government would attach few requirements or "strings" to the money so that state and local governments would be given wide discretion in block grant distribution. HUD's Community Development Block Grant was one of the first to be formulated, and continues to be a model of an effective and popular federal grant program.

1. The New Federalism Approach.

In 1981, the Reagan Administration drafted another alternative for states called the "New Federalism" with the objective to redefine federalism by providing states with a stronger role in the federal process. Reagan initially proposed to consolidate 85 categorical grants into seven block grants, giving the states complete control and responsibility over block grant expenditures and allowing them the flexibility to identify and address specific state needs. Nevertheless, block grants are seen by legislatures as a step backward when compared to the General Revenue Sharing initiative.

2. Federal Aid as a Portion of a State Budget.

According to Census Bureau reports, 1980 combined revenue for the 50 states amounted to $234 billion, and federal aid to state governments was $62 billion. Thus, federal aid to state governments comprises about 25 percent of a state's total budget. This percentage tends to be misleading because it includes direct payments to individuals, like medicaid and AFDC, and payments that pass through state governments to local governments. If these pass-through payments are deducted, federal aid constitutes about 10 percent of an average state budget. Block grant monies amount to between 2 to 3 percent of that budget, and therefore, represent a very small portion of state revenue. (However, these percentages vary depending on the fiscal structure of each state.)

3. Funding Levels.

The National Conference of State Legislatures and the National Governors Association formulated a policy position that endorsed a 10 percent program funding reduction for block grants. This reduction would be acceptable because federal program administration and overhead would be virtually eliminated. The actual FY '82 funding level for block grants was reduced overall by 13 percent, or 22.7 percent if inflation is taken into account. The original FY '82 funding level designated by the August 13, 1981, Omnibus Budget Reconciliation Act (P.L. 97-35) was $10.2 billion, which is down from the FY '81 level of $10.9 billion. However, this amount was changed in December in the third continuing resolution (P.L. 97-92) to a level of $9.5 billion. This figure may change again when the continuing resolution expires March 31. It is quite likely that the figure will be lowered since President Reagan is asking for another $2.4 billion in cuts in the FY '82 budget. (Refer to Table 1 for a block grant summary.)

B. Features of Block Grants

1. Description

The final block grant product that emerged from Congress and was signed by the President in August fell short of the expectations of state legislatures. Reagan's initial proposal was to merge 85 categorical grants into seven blocks, but the final result was the consolidation of only 57 categoricals into nine blocks. For example, according to OMB's national budget account system there are 33 categoricals consolidated in one block grant program, nine consolidated in another block, and four block grants that each contain only one program. Three block grants have not yet been handed over to the states to administer.

The nine block grants are:

1. Alcohol, Drug Abuse and Mental Health
2. Community Services
3. Community Development
4. Elementary and Secondary Education
5. Maternal and Child Health Services
6. Low Income Energy Assistance
7. Primary Care

Table 1

BLOCK GRANT SUMMARY

Block Grant	FY82 Funding Level (in millions)	% Difference FY81 vs. FY82	Funding Available	Number of Consolidated Programs	Number of States Participating	Match Required	Admin. Expense Limit	Transferable
Alcohol, Drug Abuse & Mental Health[1]	$ 432.0	-21.3%	Oct. 1, 1981	3	49	No	10%	7% to Health grants
Community Services[1]	$ 348.0	-26.4%	Oct. 1, 1981	1	38	No	5%	5% to Energy, Head Start & Older Amer Act
Community Development	$3456.0[2]	- 6.5%	late Feb. 1982	1	25-30 est.	Yes	2%	0%
Elementary & Secondary Education	$ 470.4	-10.5%	July 1, 1982	33	Not Yet Available	No	No Limit	0%
Maternal & Child Health Services[1]	$ 347.5	-26.9%	Oct. 1, 1981	6	48	Yes	No Limit	0%
Low Income Energy Assistance	$1752.0	- 5.3%	Oct. 1, 1981	1	Automatic Transfer	No	10%	10% to Com. Svc. Soc. Svc. & Health
Primary Care	$ 248.4	-23.6%	Oct. 1, 1982	1	Not Yet Available	Yes	None Allowed	0%
Preventive Health & Health Services[1]	$ 81.6	-17.8%	Oct. 1, 1981	9	48	No	10%	7% to Health
Social Services	$2400.0	-19.8%	Oct. 1, 1981	2	Automatic Transfer	No	No Limit	10% to Health and Energy

[1] A set-aside is stipulated ranging from 1% to 15% of the total block grant funds (percentage rate depends on the block grant) which will be distributed by the federal government.

[2] States can administer 30% of total amount provided.

8. Preventive Health and Health Services
9. Social Services

The individual funding level for the nine blocks ranges from $82 million to $2.4 billion. Six of the blocks are below $500 million, and when that amount is allocated among the 50 states the final grant to each state is small.

The Reconciliation Act purposely side-stepped specifying which branch of state government would have administrative authority over block grants, allowing each state to make that determination.

General features shared by block grants are:

- An annual report or application must be filed by the state with the appropriate federal agency outlining program objectives and methods for distribution of funds.
- Public hearings must be held providing input into the state block grant application prior to submission. This requirement was waived for FY '82 because of the short notice given to states to implement the programs.
- Audits must be performed at least every two years by the states, and federal auditors must be allowed access to financial records. The federal government is not mandating any federal audit management practices; instead, they are allowing the states to formulate their own audit procedures.
- A 5 to 10 percent fund transfer is allowed among five of the block grants.
- A state administrative expense limit is set for five of the block grants, ranging between 2 to 10 percent of the funding level. In the case of the Primary Care Block Grant, no federal monies can be used to cover administrative expenditures.

2. State Implementation

A significant feature of block grants is that state legislatures have a new opportunity to appropriate all federal funds. Some state legislatures already had in place a mechanism appropriating federal funds and block grant implementation was easily accommodated into this process. Other states are using the opportunity presented by block grants to take the first step in developing oversight of federal funds. Few states have been involved in appropriating categorical monies. Part II of this paper describes state legislative action regarding block grants to date.

The majority of states have chosen to administer the block grants themselves in 1982, rather than have the federal agencies which were responsibile for the categorical grants maintain program management. Two programs--the Social Services Block Grant and the Low Income Energy Assistance Block Grant--were automatically transferred to state governments on October 1, 1981, bypassing state program acceptance. The Community Development grant is expected to be available in late February 1982, and at this point 25 to 30 states have expressed an interest in participation. It should be noted that of the total funding figure shown in Table 1 for the Community Development Block, the states can administer only 30 percent of this amount. Two other programs, the Primary Care and Education Block Grants will not be available for state implementation until FY '83.

States which did not elect to accept any particular block grant by October 1, 1981, could take over the programs at the beginning of the three remaining quarters of FY82--January 1, April 1, or July 1. As of January 1, 1982, the tally of participating states was: 49 states accepted the Alcohol, Drug Abuse and Mental Health Block; 48 states took over the Maternal and Child Health Services Block; 48 states opted for the Preventive Health and Health Services Block; and only 38 states elected to take on the Community Services Block Grant.

II. CONSOLIDATED FEDERAL AID PROGRAMS
(BLOCK GRANTS)
AND STATE LEGISLATURES

During 1981, almost half the 50 state legislatures enacted laws increasing their involvement in the oversight of federal funds. While most of these legislatures were acting because of federal grant consolidations, (block grants) legislatures in New York, Massachusetts, Iowa, and Oklahoma moved to comprehensively strengthen their roles regarding incoming federal funds.*

Even before 1981, many legislatures were involved in some oversight of federal funds, but only a handful were aggressively active in the appropriation of federal monies. Clearly, legislatures in 1982 find a new opportunity for involvement in the consolidated federal grants programs because of grant discretion and the lack of long-standing procedures developed by federal agencies and state executive offices.

During November 1981, NCSL surveyed the 50 states to find out what mechanisms the state legislatures have in place to control the expenditure of block grant funds. The survey responses indicated that 23 states had instituted new or special legislative procedures to deal with block grants (see Appendix 1). Most commonly, states passed legislation requiring some form of legislative sign off as a prerequisite to the expenditure of block grant funds.

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*The laws enacted in New York, Massachusetts, Iowa, and Oklahoma are discussed in a limited way in this paper. More details are available from those legislatures or from NCSL Fiscal Affairs staff.

The survey also showed that the following are the major ways in which state legislatures are exercising control over block grant distributions (see Table 2):

- through the appropriations process;
- by requiring formal legislative "approval" (as opposed to appropriation) prior to the expenditure of block grant funds;
- through interim control over the receipt and expenditure of federal funds;
- through legislative review of federal grant applications; and
- through special legislative committees set up to monitor block grant implementation.

Only four states reported that their legislatures did not use any of these mechanisms to control block grant distributions.

A. Legislatures in a Strong Position to Control Block Grants

A number of states appear to be in a particularly good position to oversee and direct block grant distributions. Michigan, Louisiana, and Maine not only have a tradition of active legislative involvement in the appropriation of federal funds, but also have recently passed legislation to assure legislative participation in the block grant implementation process. In 1981, Michigan passed legislation mandating that the legislature be provided with detailed information on the application for and receipt of federal funds, and also directed that expenditures from federal revenues be the lesser of the amount appropriated in the budget act or the amount paid in. Louisiana established a process whereby all block grants must be reviewed by a Joint Legislative Committee on the Budget and set up a subcommittee on block grants. In its 1981 session, the Maine legislature enacted a law under which any change from federal categorical to block grants cannot be implemented at the state level without approval by the legislative branch of government.

MAJOR LEGISLATIVE BLOCK GRANT OVERSIGHT MECHANISMS*
(November 1981)

State	Appropriation of Fed. Funds (Other than Open-Ended Appropriations)	Requiring Legislative "Approval" of Block Grants	Interim Legislative Control of Fed. Funds	Grant Application Review	Special Block Grant Oversight Committees
ALABAMA					x
ALASKA	x		x		
ARIZONA					
ARKANSAS	x		x		
CALIFORNIA	x				x
COLORADO					
CONNECTICUT		x	x		
DELAWARE			x	x	
FLORIDA	x		x	x	x
GEORGIA	x		x		
HAWAII	x				
IDAHO	x				
ILLINOIS	x		x		
INDIANA			x	x	
IOWA	x		x	x	
KANSAS	x		x		
KENTUCKY	x		x	x	
LOUISIANA	x	x	x		x
MAINE	x	x	x		
MARYLAND	x				
MASSACHUSETTS	x		(F)	x	
MICHIGAN	x		(F)		
MINNESOTA	x		x		
MISSISSIPPI	x		x		
MISSOURI	x				x
MONTANA	x		x		
NEBRASKA			x	x	
NEVADA	x	x	x		
NEW HAMPSHIRE	x				
NEW JERSEY				x	x
NEW MEXICO			x	x	x
NEW YORK	x		(F)	x	
NORTH CAROLINA	x	x	x		x
NORTH DAKOTA	x				
OHIO	x		x		x
OKLAHOMA		x	x	x	x
OREGON	x		x	x	
PENNSYLVANIA	x		(F)		
RHODE ISLAND				x	
SOUTH CAROLINA	x		x	x	
SOUTH DAKOTA	x				
TENNESSEE		x	x		
TEXAS	x				
UTAH	x			x	
VERMONT	x		x	x	
VIRGINIA	x				
WASHINGTON	x		x		
WEST VIRGINIA					
WISCONSIN					
WYOMING	x				
TOTAL	36	7	27	16	10

*For further clarification of column headings, see accompanying text.
(F) Full-time legislature

The Montana legislature has already demonstrated its determination to be a full partner with the executive branch in the control of federal funds. During its last regular session, the legislature directed that all block grant funds received prior to January 3, 1983, require a special session of the legislature prior to expenditure. A special session was subsequently held in November 1981, at which time the legislature reviewed detailed budget plans for the expenditure of block grant funds and appropriated block grants on an agency basis. In order to maintain its control over any further block grants that might be made available to the state before the legislature's next regular session, the legislature recessed rather than adjourning after its November special session.

Several states have only recently put themselves in a position to exert a high degree of control over federal (including block grant) funds. New York, for instance, passed legislation in 1981 that allows the legislature to make subprogram specific appropriations of federal funds in a separate federal funds appropriations bill and requires the state comptroller to publish detailed monthly, quarterly, and annual reports on the sources and uses of funds, including federal funds. Massachusetts also passed sweeping legislation last year dealing with its budget procedures. As a result, for the first time this year, the Massachusetts legislature is appropriating federal funds and has binding review authority over federal grant applications. Iowa, which has never been actively involved in the oversight of federal funds, passed legislation in 1981 requiring that block grants be deposited in a special fund subject to appropriation by the legislature, and that the legislature receive notification of all applications for federal funds at least 60 days prior to submission of the application. Texas attached a rider to its FY '81-83 appropriations bill requiring block grant funds to be allocated as they were under categorical grants. And specific appropriations of federal block grant monies were made to programs by the Washington legislature during its last regular session, although more flexibility was provided to the executive in special session.

Several legislatures that have not passed any special legislation dealing with their ability to control block grants are nonetheless in a good position to exercise aggressive oversight. Alaska, Florida, and Oregon are examples of states that have had a relatively long tradition of legislative involvement in the oversight of federal funds. All three states appropriate federal funds. Additionally, the Alaska legislature has, for many years, played a strong advisory role during the interim with respect to the expenditure of federal funds, Florida has a statewide accounting system to track and organize federal funds information, and Oregon's legislative Emergency Board has had the statutory authority, since 1963, to approve/disapprove grant applications and appropriate unanticipated federal funds.

B. Legislative Mechanisms to Control Block Grants

The sections that follow look in greater detail at the five primary legislative mechanisms used to oversee block grant distributions: 1) appropriation of federal funds; 2) approval/disapproval authority over block grant expenditures; 3) interim control over federal funds; 4) binding review of grant applications; and 5) special block grant oversight committees.

1. Legislative Appropriation of Federal Funds

The appropriations process can be used by state legislatures as a powerful tool to control block grant distributions. Using this mechanism, legislatures may specify in their appropriations bills or in accompanying documents exactly how block grant funds are to be spent, or may hold off on appropriating block grant funds until the executive branch makes specific commitments regarding expenditure plans.

Unfortunately, uncertainty regarding the nature, amounts, and timing of block grants because of the Congressional budget process has somewhat frustrated attempts by legislatures to use the appropriations process as an effective means of directing block grant distributions. Part-time legislatures and states with biennial budgets have found themselves in the position of having to pass major appropriations bills in the absence of reliable information about how much money their states can expect over the next year or two, when funds will be available, and for what purposes the funds may be spent.

Responses to the NCSL survey indicated that 36 state legislatures appropriate federal funds on either a lump sum or program specific basis; the other 14 either do not appropriate federal funds or make open-ended appropriations (see Table 1). To what extent those states with federal funds appropriations authority will choose to appropriate specific amounts of each block grant for designated purposes is as yet unknown. Many of these states have in the past, however, earmarked incoming federal funds for specified programs and/or prohibited the use of federal funds for certain purposes.

Presented below are excerpts from the recent appropriations bills of several states that suggest different ways in which legislatures have used the appropriations process as a means of directing federal funds expenditures.

California's 1981 appropriations act includes a number of provisions that detail legislative directives as to how federal as well as general revenue funds are to be spent. The following excerpt is from SB 100 (1981), page 239:

518-001--For support of Department of Social Services		46,130,498
Schedule:		
(a) 100000--Personal Services . . .	88,497,668	
(b) 300000--Operating Expenses and Equipment	40,097,733	
(c) 443613--Tort Payment (Attorney Fees)	17,174	
(d) For Transfer to the Health Care Deposit Fund	3,031,136	
(e) Amount Payable from the Health Care Deposit Fund	-7,397,334	
(f) Reimbursements	-839,199	
(g) Amount payable from the Social Welfare Federal Fund (Item 518-001-866)	-76,538,060	
(h) Unallocated reduction	-738,620	
518-001-866--For support of Department of Social Services to be transferred to Item 518-001-001, payable from the Social Welfare Federal Fund after transfer from the Federal Trust Fund		76, 538,060

3. Provided further, that $1,779,558 of $2,372,744 in General Fund, $4,163,895 of $5,550,527 in federal funds, and $156,707 of $208,942 in reimbursements appropriated by this act in support of the Statewide Public Assistance Network (SPAN) shall not be expended sooner than 30 days after submission to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house which considers appropriations . . . of an amended feasibility study report (FSR) . . . which does each of the following: . . .

d) Contains a detailed plan for recouping the state and federal share of anticipated savings. . . .

Missouri makes specific federal funds appropriations to programs and often includes special directives within its appropriations acts as to how funds are to be administered. The following is taken from HB 9 (1981), page 50:

> Section 9.565. To the Department of Social Services
> For the Division of Family Services
> For the purpose of funding benefits except
> hospital and nursing facility care under Title XIX of the Social Security Act as provided by law and with the intent to adjust fees to insure maximum provider participation, including professional fees for pharmacists of $2.50 per transaction. . .
> federal block grants received by the Department of Social Services, shall be administered under the oversight of a committee composed of five members of the House of Representatives, . . . five members of the Senate . . . the Director of the Department of Social Services and the Director of the Division of Family Services, one of which will act as chairman. (Emphasis added.)

From General Revenue Fund	$36,834,064
From Federal Funds	51,332,952
Total (0 F.T.E.)	$88,167,016

Michigan also makes subprogram specific appropriations of federal funds and includes special provisions in its appropriations act. Additionally, within each appropriation, line items are separately funded, although federal funds are not broken out at this level from other sources. The following excerpts are taken from Act No. 35 (1981), pages 9 and 20.(?):

		For Fiscal Year Ending Sept. 30, 1982
ASSISTANCE PAYMENTS FIELD STAFF		
Full-time equated classified positions	5,625.0	
Salaries and wages--5,625.0 FTE positions		$106,979,900
Longevity and insurance		7,994,000
Contractual services, supplies, and materials		7,946,000
Federal audit adjustment		3,500,000
GROSS APPROPRIATION		$126,420,000

Appropriated from:
Federal Revenues:

HHS--social security act (titles IV, XIX, and XX)	43,341,300
AGR--food and nutrition service, food stamp program	6,202,900
State general fund/general purpose	76,875,800

Sec. 78. The department of social services shall seek federal approval to implement a work program for recipients of aid to families with dependent children in addition to the requirements of the federal work incentive program. The work program requirements shall include community work projects, education, and job training programs.

Pennsylvania appropriates federal funds in a separate, federal appropriations act. In its 1981-82 appropriations act, the legislature chose to make lump sum appropriations of block grant funds. This can be seen in the following excerpt taken from HB 1290 (1981), page 50:

VI. Primary Care Block Grant

(1) To the Department of Health - For planning and determining the applicability of assuming the administration of allotments and other health services delivery responsibilities associated with the Community Health Centers, October 1, 1982 . . . . $150,000

VII. Low Income Emergency Energy Assistance Block Grant

To help lessen the impact of the high cost of energy on low income families and individuals.

(1) To the Department of Public Welfare to help lessen the impact of the high cost of energy on low income families and individuals $119,000,000

Ohio also appropriated block grants as blocks in the schedule of federal grants that was included in HB No. 552 (1981). The example below is taken from page 102:

Department of Economic and Community Development	
Administration D Action FY 1980	2,500,000
10-604 "Mini-Computer" MIS	9,168
10-604 Statistical Analysis Center	43,750
10-611 Home Energy Assistance Block Grant	61,070,800
10-612 Community Services Block Grant	9,103,500
10-613 Community Development Block Grant	20,240,000
10-614 HEAP Weatherization	10,777,200
Total Department of Economic and Community Development	$111,173,470

Although the Maryland legislature is constitutionally prohibited from increasing the Governor's budget recommendations, within this constraint Maryland has been active in the oversight of federal funds appropriations. In reducing the Governor's budget, the Maryland legislature details exactly which programs should be cut and how. An example of this is seen in the following excerpt from the 1981 "Report of the Chairman of the Senate Budget and Taxation Committee and House Appropriations Committee," page 85:

32.01.04.06--Communicable Disease		GF FF	1,273 5,759
.09 Supplies and Materials Office Supplies--Reduction of funds to FY 1980 actual plus 10% inflation.	1,273		
Venereal Disease--Project 606 Reduction in allowance based upon lack of justification for large increase in medicine and drugs (agreed to by the Department).	5,759	FF	
Total General Fund Reduction			167,797
Total Federal Fund Reduction			15,262
Total Reduction, All Funds			183, 059
Total Position Reduction			3

2. Legislative Approval of Block Grant Expenditures

Seven states passed legislation in 1981 requiring some form of legislative "approval" (as opposed to appropriation) of block grant funds as a prerequisite to their expenditure. In most states where such legislation was passed, it passed because of concern about how the executive might distribute block grant monies received while the legislature was not in session. Where legislative approval is a prerequisite to the expenditure of block grant funds, the executive branch is usually being asked to supply the legislature with a detailed plan for block grant implementation.

Nevada passed SB 619 in 1981, which requires Interim Finance Committee approval before block grants may be allocated. Maine also now requires, under a law passed in 1981, that any change from federal categorical grants to federal block grants cannot be implemented on the state level without legislative approval.

Oklahoma's SB 326 (passed over the Governor's veto in 1981) states that "the Director of State Finance shall not process any warrants or claims on any federal financial assistance received by a state agency, board or commission unless or until the Director of State Finance has received a written authorization from the Speaker of the House of Representatives and the President Pro Tempore of the Senate approving the federal financial assistance. . ."

Louisiana established a procedure whereby all federal funds received in the form of block grants must be reviewed by the Joint Legislative Committee on the Budget where federal funds are newly incorporated in the state budget. Connecticut's PA 81-449 (1981) requires legislative approval for expenditure of block grants.

North Carolina's HB 1392 (1981) directed that all federal block grant funds received by the state between August 31, 1981, and July 1, 1983, be received by the General Assembly. Finally, Tennessee passed SB 997 in 1981, which requires the Commissioner of Finance and Administration to submit to the Finance, Ways and Means Committee chairmen a plan for their acknowledgement for implementing block grants.

3. Interim Control of Federal Funds

Most state legislatures are part time and a number have biennial budgets. Thus, the question of control over block grant funds received during the interim arises, especially where the grant was either unanticipated or came in an amount significantly above or below that anticipated by the legislature during its last regular session. Clearly, the seven states discussed in the previous section have the means to exercise strong oversight during the interim through the requirement of legislative approval of block grants prior to expenditure.

In addition, the NCSL survey showed that ten states have in place procedures under which the legislature has binding control over the receipt of unanticipated federal funds. In seven states--Delaware, Oregon, South Carolina, Vermont, Kansas, Mississippi, and Ohio--either a legislative committee or a joint legislative-executive committee has approval/disapproval authority over the receipt of federal funds during the interim.

Iowa's requirement under SF 563 (1981) that all block grants must be appropriated gives it interim control over block grant funds, as did Montana's HB 500 (1981), which required a special session of the legislature for block grant appropriations during the 1981-83 interim. Illinois controls interim federal funds receipts through a provision that requires an agency to seek a supplemental appropriation except under specified circumstances.

Ten state legislatures reported in the NCSL survey that they play an advisory role during the interim in reviewing the receipt and expenditure of federal funds, including Arkansas, New Mexico, Florida, Alaska, Nebraska, Kentucky, Washington, Minnesota, Indiana, and Georgia. (Pennsylvania, Massachusetts, New York and Michigan do not have special interim procedures as they are full-time legislatures.)

Control over the receipt and expenditure of block grant funds during the interim is increasingly important to legislatures in the face of the continuing uncertainty about which block grants will be made available to the states when and for what purposes.

4. Grant Application Review by the Legislature

Legislative involvement in the review and approval/disapproval of grant applications can provide state legislators with an "early-warning system" concerning problems which may arise over the receipt and expenditure of federal grants. As part of the NCSL survey, state legislatures involved in grant application review were asked to cite the benefits of such involvement. Some of the benefits cited were:

> "Allows the legislative staff to identify potential problems with changes in federal funding before they occur."
>
> "Gives the legislature prior knowledge of any obligations of state funds."
>
> "Increases awareness by the legislative fiscal officers of where the money is going."
>
> "Assures the legislature that federal grants are consistent with state priorities."

"Specific grants objectionable to the legislature have been refused by the governor."

The continued ability of state legislatures to use grant application review as an early-warning system in the block grant process will depend on the level of detail required by the federal government in block grant applications and/or the kind of information regarding expenditure plans legislatures can require the executive branch to provide during grant application review.

Six states reported in the NCSL Survey that they have approval/disapproval authority over the federal fund grant applications of state agencies. In Oklahoma, Oregon, Massachusetts, South Carolina, and Vermont the legislature has its own committee which approves/disapproves grant applications. In Delaware it is a joint executive-legislative committee which has this responsibility. Under an Oklahoma bill passed in 1981, a newly created Joint Committee on Federal Funds has approval/disapproval authority over federal fund applications. By law, along with the actual application, agencies must submit to the committee a one-page notice of intent that details program objectives, the agencies and/or program(s) affected by the application, the agencies' intentions should federal funds be reduced or terminated, and what the state is obligated to do in accepting federal funds.

Other state legislatures have review and comment, but not approval/disapproval authority over federal funds, including Florida, Iowa, Indiana, Kentucky, Nebraska, New Jersey, New Mexico, New York, Rhode Island, and Utah.

5. Special Legislative Committee Oversight

During 1981, ten states created legislative committees or subcommittees solely for the purpose of monitoring federal funds in general and block grants in particular. Florida set up a Select Committee on Federal Budget Cutbacks; Louisiana's House Appropriations Committee established a subcommittee to review block grants; New Jersey's Joint Appropriations Committee established a Subcommittee on Federal Aid; and Oklahoma created a Joint Committee on Federal Funds.

In Missouri, the 1981 appropriations bill for social services included a directive that block grants received by the Department of Social Services be administered under the oversight of a joint legislative-executive committee. Alabama and New Mexico set up interim committees. California created an advisory committee for the allocation of block grants, and North Carolina established a Joint Legislative Committee to Review Federal Block Grants. Finally, Ohio created a Joint Legislative Committee on Federal Funds to monitor the receipt and expenditure of federal funds and to review all federal grant programs.

How effective these special committees will be in overseeing and influencing the distribution of block grant funds will undoubtedly vary from state to state. What is already clear, however, is that those states which have established special block grant committees have created for themselves an opportunity to focus attention, in one committee, on the problems associated with block grant implementation.

* * *

The foregoing review shows that a number of legislatures have mechanisms/procedures in place to allow them to exercise control over block grant expenditure decisions at the state level. It remains to be seen, however, to what extent legislatures will choose to become active in the block grant allocation process. Moreover, the ability of legislatures to play a significant role in the process will be dependent not only upon the mechanisms/procedures they have in place for block grant oversight, but also on the timing of block grant receipts in relation to legislative sessions, the access legislators have to detailed information concerning potential block grant uses, the sophistication of existing in-state systems for tracking the flow of funds, and the time available to legislators and their staffs to analyze and oversee block grants.

C. Recommendations Concerning Legislative Oversight of Block Grants

In the 1980 publication, A Legislator's Guide to Oversight of Federal Funds, NCSL's Fiscal Affairs and Oversight Committee made a series of recommendations for state legislative oversight of federal funds. These recommendations are reproduced in Appendix 2.

The Fiscal Affairs and Oversight Committee recommendations were primarily designed to address problems associated with legislative control over categorical grants. In addition to these recommended actions, legislatures may also wish to consider some of the following alternatives in order to deal with the special oversight problems raised by block grants:

1. Making six or nine month appropriations which would allow legislators to appropriate the balance of funds in a subsequent session when they know exactly what funds are available. (Minnesota did exactly this in 1981; see Appendix A for discussion of Minnesota's actions.)
2. Passing legislation which requires that where actual program funding comes in at some given percentage (say 5 or 10 percent) less than appropriated, the executive shall receive legislative approval for a plan for handling such a funding reduction.

3. Including contingency plans for budget cuts in appropriation bill footnotes or in other documents expressing legislative intent.

4. Upon receipt of a block, requiring legislative approval of an expenditure plan for that block as a precondition to expenditure.

5. Delegating to an interim committee appropriations authority over block grants that are anticipated but for which federal funding levels are undetermined, or requiring a special session for the appropriation of such funds.

6. Creating joint legislative-executive committees for the administration of block grants.

III. PROBLEMS STATE LEGISLATURES HAVE WITH BLOCK GRANTS

The Reagan Administration's original block grant proposal offered the states more discretion in program administration and fund distribution than did the blocks actually passed by Congress. Some critics contend that several of the block grants were misnamed and are in fact better termed categorical grants because of the "strings" that remain attached to them.

In the first round of new block grants, state legislatures encountered several problems. Specifically:

1. Insufficient lead time for legislative review and appropriation of block grants;
2. "Strings" attached to block grants;
3. Reduced funding levels;
4. Uncertainty in federal funding levels;
5. State match requirements;
6. Redefining the federal-state relationship.

1. Insufficient Lead Time for Legislative Review and Appropriation. Six block grants were made available for state administration on October 1, 1981, the beginning of the federal fiscal year. Most state legislatures were not in session at that time, and, in fact, were well into their FY '82 fiscal years. Forty-six states begin their fiscal year on July 1; seven state legislatures with biennial sessions do not convene again until 1983. Consequently, state legislative involvement in the first round of state administration of the new block grants tended to be limited or nonexistant. This meant that the door

was open for the governors to accept the block grants on behalf of the states and to take the lead in block grant implementation.

2. "Strings" Attached to Block Grants. Block grants were sold to the states as a form of flexible federal aid with the understanding that states could distribute the funds according to program priorities set by the states. The final legislative version attached numerous strings to some of the blocks--maintaining their categorical nature. For example:

- The Alcohol, Drug Abuse and Mental Health Services Block Grant, required that every community mental health center that was funded in FY '80 also receive block grant funding in FY '82. In addition, the federal regulations require that 35 percent of the funds received by the state be earmarked for alcoholism programs and 35 percent for drug abuse programs. The remaining funds are discretionary.
- The Preventive Health and Health Sevices Block Grant mandates state funding of all FY '81 grantees that provided emergency medical services. The grant also stipulates that: FY '82 state funding for the hypertension control program (one of the former categorical grants merged into this block) be at least 75 percent of the 1981 funding level; FY '83 state funding at least 70 percent of the 1981 level; and FY '84 state funding at least 60 percent of the 1981 total.
- The Maternal and Child Health block grant stipulates a set aside of 15 percent of the amount appropriated for 1982, and 10-15 percent for FY '83 to be used by the Department of Health and Human Services for "special projects." These are identified as the Hemophilia and Genetic Disease programs that will be funded directly by HHS. The states could apply to receive the funds but would have minimal discretion in awarding the subgrants.
- The Community Services Block Grant requires that at least 90 percent of the funds be distributed to political subdivisions, nonprofit community organizations or migrant and seasonal farm worker organizations. Five percent is allowed for program transfer and 5 percent is allowed for administrative expenses.
- A maximum cap of 15 percent is set for residential weatherization programs for funds received through the Low Income Energy Assistance Block Grant.

- Under the Education Block, at least 80 percent must be committed to the local level and 20 percent can be reserved for state use.

The examples provided demonstrate the misnomer of block grants: initially created to provide broad program discretion, they instead earmark the funding to highly specific program areas.

3. Cuts in Block Grant Funding Levels. State government leaders offered to accept a 10 percent across-the-board cut in block grant funding in return for greatly increased state control over the allocation of federal funds. It was reasoned that a 10 percent cut could be absorbed because of savings arising from a reduction in the federal bureacracy.

But states were given a 22.7 percent real reduction which meant cutting into the substance of the programs. Most states are currently dealing with budget reductions and revenue shortfalls and are in no position to subsidize programs that were originally initiated on the federal level and are now being shifted to the states.

4. Uncertainty in Federal Funding Levels. The President and Congress are continuing to talk about further reductions in block grant funding. Uncertainty about the amount, timing and availability of federal funds make it difficult for the states to prepare their own budgets.

The federal government has not yet passed a final budget bill for FY '82. Different block grant funding levels have appeared in the Reconciliation Act that was passed in August, and the three continuing resolutions that were passed in October, November, and December. The funding level may change again when the third continuing resolution expires at the end of March. This uncertainty at the federal level creates serious planning problems for state fiscal officers and forces them to guess at what the final federal aid figures will be. Ideally, the states should be able to have federal budget figures at least one year in advance so that the states could adapt their budgets accordingly.

The cycle will begin again this summer as most state legislatures complete their FY '83 budget work before Congress releases the federal FY '83 budget.

5. State Match Requirements. Three block grants require a state match which has been a typical characteristic of categorical grants. The match requirements detract from the intent of block grants and create additional financial obligations for the states. The requirements are as follows:

- Maternal and Child Health: the state match requirement is three sevenths of the federal funding level.
- Primary Care: in FY '83, the state match is 20 percent of the federal funding level and in FY '84, the state match is 33 percent.
- Community Development: a state match of 10 percent is required. (This match can be made with in-kind contributions.)

6. Redefining the Federal-State Relationship. President Reagan's original objective in his block grant proposal was to create a new national public policy initiative which would allow states to direct the allocation of federal aid to programs identified by the states as essential services. For the states to do this, funding flexibility was a critical element. The block grant program that emerged from Congress failed to provide this new partnership role for state governments. The federal government insisted on earmarking a large percentage of the block funds which limited the discretionary powers that were to be transferred to the states.

Nevertheless, block grants are a step in the right direction in shifting responsibility to states, but as the block grant program presently stands, it falls short of a new comprehensive state-federal policy.

IV. BLOCK GRANT OUTLOOK FOR FY '83

The FY '82 block grant initiative added five newly created block grants to the four block grants already in existence to form a new public policy on state-federal relations.

In the President's FY '83 budget, changes are proposed in three existing block grants. In addition, there are eight totally new blocks which consolidate over 40 categorical grants.

The three block grants that will be consolidating additional categorical programs are:

1. Low Income Energy Assistance. (Adds Emergency Assistance.)
2. Primary Care. (Adds migrant health, black lung clinics, and family planning.)
3. Services for Women, Infants and Children. (Formerly Maternal and Child Health--adds Women, Infants, and Children program (WIC)).

The eight new proposed block grants are:

1. Child Welfare
2. Combined Welfare Administration
3. Vocational and Adult Education
4. Education for the Handicapped
5. Training and Employment
6. Rehabilitation Services
7. Rental Rehabilitation Grants
8. Food and Nutrition (only available for U.S. Territories)

The funding level for all 17 proposed and actual block grants was $18.4 billion for FY '82, while the FY '83 proposed funding level is $15.5 billion. This represents a funding reduction of 15.7 percent, ignoring the purchasing power lost to inflation.

Just comparing the funding levels of the present nine block grants from FY '81 prior to Reagan's "New Federalism" to the proposed FY '83 levels, shows a decrease of 17.4 percent, or 34 percent with inflation factored in. This means that to maintain current services, states will be forced to supplement the programs with state revenues. As a recent NCSL fiscal survey points out, 30 states in FY '82 are facing a balance of 1 percent or less, indicating that state budgets are in poor shape to be able to pick up new programs.

President Reagan also proposed a "Revenue Turnback" program for the states which would "turn back" to state governments over 125 categorical and entitlement programs along with a federal funding source over a transition period from 1984 to 1991. As it currently stands, block grants would be included in this transfer. The problem that arises is that all these programs will face the federal budget axe before being released to state administration. This will put political pressure on state governments to maintain the current service levels since prior federal aid practices created a large constituency for these social programs which now will be inherited by the states. This federalism proposal could have serious consequences for the health of state budgets.

APPENDIX 1

Description of Legislative Procedures Adopted in Response to Block Grants and/or Federal Fund Cutbacks, During 1981, By State

Alabama. During its 1981 session, the Alabama legislature passed two joint resolutions which dealt with block grants. SJR 19 created an interim legislative committee to study federal block grants and SJR 215 expanded the scope of one of the legislature's select joint committees, "to study the state medicaid programs so as to provide that said committee shall investigate and report on the impending impact of federal block grants to operate state health and welfare programs."

California. Legislation was passed in California which established a joint legislative-executive advisory committee for the allocation of block grant funds, not to go out of existence until July 1984.

Connecticut. To assure its involvement in the allocation of block grant funds, Connecticut passed PA 81-449 which stated that, during FY '81-82:

- State funds may not replace cut federal funds without legislative approval.
- Legislative approval is required before the expenditure of block grant funds.
- Any modification of funding for programs necessitated by reduction in federal funds can occur only if there is legislation that allows this.

Florida. During 1981, the Florida legislature formed a Select Committee on Federal Budget Cutbacks and developed a general policy statement and detailed guidelines which were used by the Senate Appropriations Committee in writing the 1982 Senate Appropriations Bill.

Illinois. A legislative resolution directed the Commission on Intergovernmental Cooperation to hold public hearings during this past summer to advise the legislature on block grant implementations. The Commission submitted a report to the General Assembly in October which made the following recommendations:

- Creating a trust fund for each block grant so that program growth or decline can be monitored and evaluated.
- Creating a permanent new Block Grant Board to address long-range programmatic and administrative oversight responsibilities of block grants.

- For the interim, until the oversight board is established, the Commission on Intergovernmental Cooperation will submit monthly reports to the General Assembly on the status of all block grants.

Until these recommendations are acted on by the legislature, block grants will be handled through the normal appropriations process.

Iowa. In passing SF 563, the Iowa legislature made clear its intention to take an active role in the control of federal block grant funds. SF 563 requires the following:

- Block grants must be deposited in a special fund subject to appropriation by the legislature.
- The governor must include with the budget a statement of federal funds not included in the budget for the previous biennium and anticipated block and categorical grants.
- The budget must indicate federal funds to be used, the programs to which they will apply, and the necessary state match.
- The legislature must be alerted to all federal grant applications at least 60 days prior to submission of the application.

Kansas. The legislature appropriated $0 for health and social services block grants. By establishing such a limitation the Kansas Finance Council (a joint legislative/executive body) can increase expenditure limitations if block grants occur.

Louisiana. The Louisiana legislature instituted a requirement that federal funds received in the form of blocks be reviewed by the Joint Legislative Committee on the budget, where federal funds are newly incorporated into the state budget. The Louisiana House Appropriations Committee also established a subcommittee to review block grants.

Maine. In 1981, the Maine legislature enacted a law under which any change from federal categorical grants to federal block grants cannot be implemented on the state level without recommendations from the committee having jurisdiction over appropriations and financial affairs and approval by the legislative branch of state government.

Maryland. Standing committees in the Maryland legislature have held hearings on federal fund cutbacks and the legislature has been involved in the review of changes in state regulations resulting from federal fund reductions.

Massachusetts. Under a law passed in 1981, the Massachusetts legislature greatly increased its oversight of federal funds. All federal funds received by the state must now be deposited in a special General Federal Grants Fund, subject to appropriation by the legislature, except under certain circumstances. Additionally, the legislature must be notified of all federal grant applications at least 30 days prior to submission. Among other things, the notification must include a detailed fiscal statement and a description of the substance of the applications. Finally, the legislation specifies reports that state agencies must regularly make to the legislature concerning federal funds.

Michigan. Three bills were passed last year in Michigan dealing with legislative oversight of block grants. SCR 355 required that all state agencies inform the legislature of applications for and the receipt of federal block grants and directed the governor to set forth in detail in the budget the proposed expenditures of federal block grant funds. Under PA 30, the department of management and budget must submit to the legislature an annual report on federal assistance. And PA 18 declared that, if appropriations are made from federal revenues, the amount expended shall not exceed the amount appropriated in the budget act or the amount paid in, whichever is the lesser.

Minnesota. The Minnesota legislature passed a bill requiring one-quarter of FY '82 block grant monies to be allocated according to prior categorical uses, with the remainder to be appropriated by the legislature when it reconvened. During the interim, a full appropriations committee meeting was held on federal cuts and block grant legislation.

Missouri. The 1981 appropriation for the Department of Social Services included the following directive: ". . . Federal block grants received by the Department of Social Services shall be administered under the oversight of a (joint legislative-executive) committee."

Montana. HB 500 passed in 1981, specifically prohibited the expenditure of block grant funds without legislative appropriation. The bill stated,

> "Any federal funds received by or allocated to the state of Montana prior to January 3, 1983, as a block grant as defined by an act of Congress enacted subsequent to April 1, 1981, and specifically designated as a block grant shall require a special session of the legislature for appropriation by the legislature prior to distribution of these funds among agencies and programs."

Subsequently a special session was held in November at which the legislature appropriated all block grants. The legislature then recessed but did not adjourn in order to maintain appropriations control over any additional block grants that might come to the state before the legislature's next regular session.

Nevada. SB 619, passed in 1981, required that,

> Whenever federal funding in the form of a categorical grant of a specific program administered by a state agency . . . is terminated and incorporated into a block grant . . . the agency must obtain the approval of the interim finance committee in order to allocate the money received from any block grant."

New Hampshire. A bill was passed by the legislature requiring the Governor to notify the presiding officers of the Senate and House of Representatives of any block grant awards by the federal government. Any allocation of these grants must be approved by the General Court.

New Jersey. The legislature formed a subcommittee on Federal Aid and the Joint Appropriations Committee intensified to oversight of federal funds.

New Mexico. An interim Federal Funds Reduction Study Committee was set up by the legislature to monitor the federal budget process, determine state and local impact, and draft legislation.

New York. This state passed a comprehensive bill, the "Accounting, Financial Reporting and Budget Accountability Reform Act of 1981," which revamped the budgeting and accounting process in New York, giving the legislature greatly increased control over appropriations and expenditures. The following brief description of the bill is taken from New York's September 1981, "The Ways and Means Report":

- The new legislation requires that no state moneys may be expended except pursuant to an appropriation, and generally prohibits transfers of money between funds unless specifically authorized by statute.
- The Governor must alter the budgetary process to provide for the appropriation of federal funds and all other funds that were heretofore exempt, make substantial changes to the financial plan, begin a new "key item" reporting system to monitor program performance, and operate within a more restricted environment as a result of increased legislative oversight. These changes are designed to parallel the shift in accounting and reporting practices to conform with GAAP (generally accepted accounting principles).

North Carolina. Under HB 1392, the North Carolina legislature asserted its authority to control the appropriation of block grant monies. The bill states:

- ". . . All federal block grant funds received by the State between August 31, 1981, and July 1983, shall be received by the General Assembly . . ."
- "There is established the Joint Legislative Committee to Review Federal Block Grant Funds. The Committee shall review acceptance and use of all federal block grant funds received by the State between August 31, 1981, and July 1, 1983. . . ."

Ohio. HJR No. 39 created a Joint Legislative Committee on Federal Funds to monitor the receipt and expenditure of federal funds and to review all new federal grant programs. The bill also directed the committee to serve in an advisory capacity to the Ohio General Assembly in all matters related to federal grant programs.

Oklahoma. SB 326, passed in 1981, created a Joint Committee on Federal Funds with authority to approve/disapprove federal fund applications and make recommendations concerning federal funds to the legislature. It also directed that claims by state agencies for federal funds may not be processed without written authorization from the president of the senate and speaker of the house.

Tennessee. SB 997, passed during 1981, established several new procedures with respect to the appropriation and expenditure of state funds, including:

- "In the event federal and departmental revenues . . . are less than the amount estimated to be available under the allotments then and to the extent the spending authorizations are hereby reduced; to the extent that federal or departmental revenues in excess of the amounts alloted are realized, such excess shall not constitute increased spending authorizations, except under the conditions herein specified."

- "No state agency shall establish new programs or expand programs, including any programs involving federal or other funds . . . until the program and the availability of the money is submitted to the Finance, Ways and Means Committee chairmen and until said chairmen have acknowledged in writing receipt thereof . . . "

- "The Commissioner of Finance and Administration shall submit a plan for implementing the federal block grants proposed by the President."

Texas. The legislature attached a rider to its appropriations bill which requires that if block grants replace categorical grants, the funds should be allocated to state departments and agencies as they were under categorical grants.

Virginia. Under the 1981 amendments to the Virginia appropriations act, the Governor must produce quarterly reports summarizing the implications of approvals of federal fund grants. The implications to be identified include significant and anticipated budgetary, policy, and administrative impacts of federal requirements.

APPENDIX 2

RECOMMENDATIONS FOR IMPROVING STATE LEGISLATIVE OVERSIGHT OF FEDERAL FUNDS

(The following recommendations were developed by NCSL's Fiscal Affairs and Oversight Committee and were published in "A Legislator's Guide to Oversight of Federal Funds," NCSL, June 1980.)

The Fiscal Affairs and Oversight Committee of the National Conference of State Legislatures feels that a stronger state legislative role in the federal grant-in-aid system will alleviate many . . . problems. The following are the Committee's suggestions for activities which could improve state legislative oversight of federal funds.

RECOMMENDATION #1:

Necessary Background Information on State Environment. Prior to establishing, changing, or augmenting mechanisms to oversee federal funds, state legislatures should conduct a review of:

- the extent of legislative appropriations authority, both in and out of session;
- existing appropriations practices, including informational flow between the governor, the agencies, and the legislature;
- existing treatment of federal funds in the legislative budget process, including any differences in the way revenue sharing, block grants, and categoricals are treated;
- current legislative involvement in existing review, control, and reporting processes (such as the A-95 process);
- existing interim mechanisms to deal with unanticipated federal funds, such as automatic appropriation, gubernatorial approval or action by body authorized to overview these funds;
- existing technical and accounting processes to identify and track funds in the state treasury;
- trends and amounts of state expenditures and appropriations; and
- if possible, federal assistance to state agencies by program.

RECOMMENDATION #2

Review and Determination of Appropriate Procedures. The Fiscal Affairs and

Oversight Committee recommends that state legislatures consider various oversight mechanisms such as: tracking and information activities; grant application and state plan review; and legislative appropriation of federal funds to determine which, if any, of these approaches will lead to more effective legislative oversight of federal funds.

A. TRACKING AND INFORMATION

RECOMMENDATION #3

Tracking and Information on Use of Federal Funds by State Agencies. State legislatures should procure timely, detailed, and accurate information about the amount and use of federal funds by state agencies. This data should be incorporated into the legislative budget document to provide a total picture of state/federal program expenditures and estimated future obligations.

RECOMMENDATION #4:

Legislative Utilization of Existing Federal Fund Information Sources. The Committee recommends that state legislatures automatically receive all A-95 grant application and TC-1082 award information data provided by the federal government. Legislatures should establish a cooperative agreement with state executive offices to share and amass such data.

RECOMMENDATION #5:

Budget Display of Federal Fund Information. For all block grant and categorical assistance received by state agencies for support of agency operations, the Committee recommends that the budget document display this information in as detailed a manner as possible (subprogram allocation). Information should also reflect the number and type of personnel funded by this federal aid.

RECOMMENDATION #6:

Accounting Procedures. The Committee recommends that state legislatures, in conjunction with their executive branch, establish accounting procedures to identify and track federal funds coming into the state treasury.

RECOMMENDATION #7:

Itemization of In-Kind Sources of State Match. The Committee recommends that state legislatures require state agencies to itemize both direct and indirect funding sources for state match required by federal grant programs in the budget document.

RECOMMENDATION #8:

Information on Federal Reimbursements. The Committee recommends that state legislatures establish procedures to receive full information on all federal reimbursement funds received by state agencies.

B. GRANT APPLICATION AND STATE PLAN REVIEW

RECOMMENDATION #9:

Grant Application and State Plan Review. The Committee recommends that state legislatures should participate in the review of state plans and grant applications submitted by state agencies. Legislatures should have a strong role in determining whether these applications:

- are consistent with state policy;
- duplicate any on-going state programs; and/or
- commit the state to future expenditures it cannot or elects not to support.

RECOMMENDATION #10:

Focusing Application Review Activities. The Committee recommends that state legislatures establish criteria, such as a minimum funding level or operational support, to focus their state plan and grant application review efforts on proposed activities they consider significant to state fiscal planning.

C. STATE LEGISLATIVE APPROPRIATION OF FEDERAL FUNDS

RECOMMENDATION #11:

State Legislative Appropriation of Federal Funds. The Fiscal Affairs and Oversight Committee recommends that state legislatures should appropriate federal funds in the usual manner of state appropriation.

RECOMMENDATION #12:

Coordination with Federal Budget Cycle. The Committee recommends that to the extent possible, state legislatures should establish state budgetary information and hearing processes flexible enough to coordinate with the federal budget cycle so federal fund information is as comprehensive and accurate as possible.

RECOMMENDATION #13:

Adjustment of State Matching Funds to Shortfall or Increase in Federal Funds. The Committee recommends that state legislatures establish mechanisms to reduce the level of state matching funds in the event the federal participation rate is higher than anticipated; if the amount of federal funds received is less than anticipated, state mathcing funds should be adjusted accordingly consistent with federal maintenance of effort provisions.

D. EXEMPTIONS

RECOMMENDATION #14:

Federal Funds Exempted From the Legislative Oversight Process. The Fiscal Affairs and Oversight Committee recommends that: individual transfer payment to recipients; research grants to individuals and institutions of higher education; and federal/local assistance passed through state agencies for which there is no subsequent financial obligation for the state, be exempt from formal and specific legislative oversight. It further recommends, however, that the legislature receive as accurate and comprehensive information on these funds as it determines is necessary.

E. INTERIM ACTIVITY

RECOMMENDATION #15:

Interim Activity. For those states with legislative interims, the Committee recommends that the state legislature or its designees review and authorize the receipt and expenditure of any unanticipated federal funds, the transfer of federal funds between programs and agencies, and the reduction in any state programs due to a reduction in federal funds.

The Committee hopes that legislatures will adapt these recommendations to their unique state environments. This report and these recommendations are a product of the Fiscal Affairs and Oversight Committee's continuing efforts to study and evaluate all the various mechanisms of legislative oversight.

FIC

BLOCK GRANTS

Federalism Information Center

1982 GOVERNORS' GUIDE TO BLOCK GRANT IMPLEMENTATION

February 1982

Prepared by:
National Governors' Association
Center for Policy Research
Council of State Community
Affairs Agencies
Council of State Planning Agencies
National Association of State
Budget Officers

THE FEDERALISM INFORMATION CENTER is a two-year effort by the National Governors' Association (NGA) Center for Policy Research and the NGA Office of Research and Development to track the states activities during the implementation of the new block grant series—the first round of which was passed in 1981. This effort is in concert with NGA's Office of State Services, Council of State Community Affairs Agencies, Council of State Planning Agencies, and the National Association of State Budget Officers.

THE 1982 GOVERNORS' GUIDE TO BLOCK GRANT IMPLEMENTATION has been prepared to allow Governors the opportunity to share what has taken place in implementing block grants and to assist states in further refining that process. The survey used to gather the data for the Guide and preparation of this document is a joint effort of the National Governors' Association Center for Policy Research, Council of State Community Affairs Agencies, Council of State Planning Agencies and the National Association of State Budget Officers.

FOREWORD

With the enactment of the nine block grants contained in the Omnibus Reconciliation Act, there have been notable changes in the intergovernmental system. During the National Governors' Association (NGA) 1981 summer meeting in Atlantic City, a special workshop was held for Governors to begin to discuss these changes and share innovative strategies for state management of block grants. The Council of State Planning Agencies and NGA jointly published the Governors' Guide to Block Grant Implementation as a resource for the workshop. The Guide contained information on what each state was doing to prepare for administration of the block grants.

Due to the popularity of both the workshop and the Guide, the NGA Executive Committee decided to prepare this follow-up report, 1982 Governors' Guide to Block Grant Implementation. While this new report continues to have a focus on state implementation of block grants, it also contains information on other innovations that are being used to improve management in state government. As states assume greater responsibility for management of their own programs, it is critically important that new ideas and best practices be shared.

Collection of information for this report is part of a two-year cooperative effort between NGA, the Council of State Planning Agencies, the National Association of State Budget Officers, and the Council of State Community Affairs Agencies to follow state responses to changes in the intergovernmental system. This report provides information on such questions as how many states have accepted block grants, how they have used the option of funding transfer between block grants, in what ways they have obtained public participation, and what role state legislatures have assumed in block grant implementation. The report also contains a series of programmatic and administrative innovations which states already have undertaken.

As more information is obtained and particular issues become important, additional reports wil be published. The NGA Center for Policy Research (202/624-5359) will be coordinating the collection of these data and will be able to respond to specific information requests that you may have.

Governor Lamar Alexander Chairman, Committee on Executive Management and Fiscal Affairs	Governor James B. Hunt, Jr. Chairman, Committee on Human Resources

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ABBREVIATIONS USED IN THIS REPORT

ADAMHA	Alcohol, Drug Abuse and Mental Health Block Grant
CDBG	Community Development Block Grant
CSBG	Community Services Block Grant
ESEA	Elementary and Secondary Education Block Grant
FFY	Federal Fiscal Year
LIEAP	Home Energy Assistance Block Grant
MCH	Maternal and Child Health Care Block Grant
PHSBG	Preventive Health Services Block Grant
PCBG	Primary Care Block Grant
SSBG	Social Services Block Grant

EXECUTIVE SUMMARY

A new chapter in the history of intergovernmental relations in the United States is being written as states take up the challenge handed to them late last year by Congress when it converted categorical federal programs into nine major block grants.

The questionnaire circulated by the National Governors' Association (NGA) in January and February 1982 provides the first early returns on how this experiment is working at the state and local levels.

This special publication, prepared for the NGA 1982 winter meeting contains the answers to that questionnaire, along with special reports from each state highlighting particularly noteworthy developments that are accompanying the transition to block grants.

Block grants have stirred great expectations in some and great concern in others. As a result, there is intense interest in determining, as quickly as possible, how implementation is proceeding. How are decisions being made? What is the role of the Governor, the legislature, the local units of government? Is the voice of the public being heard? Are the claims of greater flexibility and efficiency a reality? Will there be less paperwork, or more?

Obviously, conclusive answers to those questions must await the passage of time. But you will find at least the beginnings of some interesting answers in the pages that follow. All of the above questions are, at the very least, confronted, if not resolved; even the tentative replies contained herein should be of great value to states that wish to benefit by the experience of other states, and that are concerned for the future of these programs and their intended beneficiaries.

It should be noted that this publication deals primarily with the questions of administrative process, as opposed to addressing in-depth the question of fiscal impact of block grant transition. Most of the programs discussed in this document have experienced substantial reductions in federal funding concurrent with the transition to state administration of block grants. In most cases, these funding cutbacks themselves have forced major changes in state operations and many sharp reductions in services provided to target groups. Although a preliminary glimpse of fiscal impact is provided herein by the National Association of State Budget Officers (NASBO), this very important issue is being addressed in a separate survey on which NGA is working closely with NASBO.

FINDINGS OF BLOCK GRANT IMPLEMENTATION SURVEY

The following section of this report describes the findings of the NGA questionnaire on block grant implementation and is presented in both narrative and tabular forms. The data contained in this section are based on information provided by every state.

The first part of this section highlights the major themes that appear to emerge from all of the information elicited by the fourteen items in the questionnaire. The second part of the section is a question-by-question presentation of the data provided by the states.

To assist the reader, the original questions precede the narrative or tabular presentation of materials.

BLOCK GRANT SURVEY HIGHLIGHTS

It is clear from this first comprehensive survey of how states are administering the nine new block grant programs that many changes in policy and procedure are underway. But it still is too early to predict the extent or even the exact direction of those changes.

Although most states have moved quickly to assume the responsibilities and opportunities in block grants, for various reasons, some states have elected to delay taking over their administration, and some of the block grants still have not been made fully available to the states.

Nevertheless, a number of interesting changes can be identified in this early survey:

- Public participation in these programs is increasing, and an interesting variety of techniques is being used to achieve this participation.
- Legislatures and local units of government also are being drawn more fully into the program decisionmaking process.
- Administrative flexibility is being tested, with states indicating so far that they are unsure whether the present course will lead to greater simplification or complication.
- Transferability—the limited power in the legislation to shift funds from one program to another to meet state priorities—is being used, but not yet on a significant scale.

The nine block grants approved in 1981 represent only a fraction of the total number of federal grants-in-aid to state and local governments. Most of them were compromised sharply in the Congressional process, thereby limiting the likelihood for dramatic changes in procedure or policy, and most had their funding substantially reduced. Also, states had little opportunity to plan for this new assumption of responsibility. All these factors have tended to reduce the number of changes which have occurred in the first four months.

Participation Increasing

The clearest indication of change emerging from this survey is the increased involvement in these programs of the general public, local government officials, and the legislature.

Some of the block grants require public notification, local government involvement, and legislative hearings. New techniques are being used to reach potentially interested parties, particularly regional and statewide meetings and televised conferences. Whether it is required or not, states seem to be making a determined effort to increase participation.

Previously, most of these programs were administered with a minimum of participation from the public, the legislature, and local policymakers. The decisionmaking process typically involved the federal administering agency, a limited number of state administrators who sometimes dealt with a limited number of local administrators, and the target population. In some of the programs, the federal agency alone made most of the key decisions regarding funding allocations and program priorities with little or no state/local government or public involvement.

While the increase in involvement on the part of the public, local officials, and the legislature is documented in the survey, the full impact of this development remains to be seen.

Administrative Flexibility

One of the greatest theoretical appeals of block grants for states was the opportunity for increased flexibility in administration. Although states are moving to utilize this increased flexibility, the short time span does not permit conclusions to be drawn as yet.

While most states indicate that there will be efforts to streamline procedures and generally reduce red tape in the future, only a few say they have seen effective changes at this stage. What is clear is that it is too early to determine which burdens will be decreased. By Federal Fiscal Year (FFY) 1983, the states hope to have some idea of what amount of administrative detail can be eliminated, reduced, or transferred to local government agencies.

There may be cases of increased administrative burdens as contracting and appropriations rules change, especially since fewer dollars are available for programs. There may have to be increased monitoring of some programs, particularly for those that have been totally federally-administered in the past.

As one state reports in the survey: "A preliminary review of the social service reporting system will result in changes that either complicate or simplify matters."

Block grants carry special audit requirements. More than half of the states do not think that there will be any effect as the audit requirements are eased. Six of those states say that there may be an increase in the administrative responsibility as certain programs become a state focus as opposed to federal. Several states say that there will be standard auditing procedures for all block grants. These procedures, as well as the elimination of auditing requirements for federal purposes, should save the states both time and money.

Intergovernmental Changes

Governors' offices have been expected to play an important role in the block grant administration process. To date, it appears there has been little measurable shift in the role of the Governor or the Governor's staff as a result of the new block grant responsibilities.

There will be more activity in the oversight of how the block grants are administered, and Governors' staffs will be more involved in planning and resource allocations. Because of the flexibility of block grants, Governors' offices and state legislatures will be working to develop new resource allocation guidelines. At least initially, there has been some increased interaction between the Governors' offices and Congressional delegations and executive branch organizations. This may be temporary as the states become more accustomed to the administration of block grants.

Most state legislatures tried to anticipate the procedures that would be necessary to carry out the responsibilities of block grant implementation. Fourteen states thus far have made no special legislative provisions for dealing with the block grants.

Many of the remaining states will use some sort of advisory group to review the acceptance and monitor the use of block grants. These groups will advise Governors' offices and state agencies and make recommendations on block grant implementation. In some states, the advisory groups will have approval authority on block grant allocations. These advisory groups vary in composition from specially created task forces to legislative standing committees on appropriations, finance, or fiscal affairs.

Required legislative action varies among twenty-four of the responding states. In three states, a state agency must have the legislature's approval before applying for or receiving a federal block grant. Some states require that block grants be subject to the legislative appropriations process, while others mandate that agency and program funding be the same proportionately as categorical grants from the previous year. Two states have found it necessary to create legislation allowing for the application and administration of the CDBG by a state agency.

It is not certain how much increased responsibility there will be for Governors' staffs and state legislatures or how the relationship will be; however, in most states the role of each branch has begun to evolve. In addition, it is apparent that a majority of the states will be increasing the role of local government in the administration of block grants. More flexibility to develop programs, as well as the reduction of mandates and the increase of authority of local government to prioritize funding needs, will play a part in the effort to return some of the power to the local level.

Transferability

During the many years that block grants or the "decategorization" of federal programs has been under discussion, a central issue has been whether states should have increased "flexibility" to channel federal grants-in-aid to meet needs and priorities as developed in the individual states. Congress generally has tended to be rather specific in its authorization language and appropriations, and often has gone so far as to earmark funds very strictly for specifically named activities and target groups. This has been a difficult issue to resolve, as states have made a strong case for having maximum flexibility and Congress has countered with the importance of accounting for the use of federal tax dollars.

A very small step toward limited statutory flexibility was realized in the approval of block grants in 1981. Most of the block grants allow for the transfer of a small fraction (about 15 percent) of the total, and only, as a rule, to certain identified programs.

The survey shows that states are taking advantage of this flexibility, but the transfers so far mainly reflect special circumstances in the first round of block grants and therefore do not reveal a lot about the general significance of transferability for block grants. Transfers presumably will increase as time goes by and as state, local, legislative, and public involvement increases.

To date, the big winner, in terms of transfers into a program, is the Social Services Block Grant (SSBG). This reflects the fact that the SSBG has broad authority with which state and local officials are experienced thoroughly and meets needs they long have rated as a high priority. It must be remembered that the SSBG experienced a substantial funding reduction as the block grant program began; thus the transfers to it can be viewed as efforts by states to make up losses in their most important social services programs.

In terms of transfers out of a program, the Home Energy Assistance Block Grant (LIEAP) was utilized the most. Twenty-seven transfers have taken place reflecting a number of special circumstances:

- Unlike most of the other block grants, the LIEAP was not reduced sharply for FFY 1982; also, funds have been distributed more rapidly than most of the other grants.

- Transfers out of energy assistance into home weatherization, done in at least five states, really are minor shifts between similar activites.

- Funds have been shifted in some states that have warm climates and thus do not consider energy assistance as serious a need.

Once again, while it is fairly easy to document the trend of shifting funds out of LIEAP into SSBG, it is difficult to forecast the significance of the trend.

There has been some shifting of funds into the Maternal and Child Health Care (MCH) Block Grant but the dollar amounts are not large. There have been comparatively few transfers out of the Community Services Block Grant (CSBG) even though it allows transfers to other block grants. Again, the answer may lie in the fact that the amount available for transfer is restricted. The CSBG requires that 90 percent of FY 1982 funds be passed on to grantees who received Community Services Adminsitration funds in FY 1981, and 5 percent of the grant may be used for state administrative costs.

1. Please indicate the block grants that will be administered by your state and the implementation date for the grant.

Federal legislation required implementation of the Social Services Block Grant (SSBG) and the Home Energy Assistance Block Grant (LIEAP) at the beginning of FFY 1982 (October 1, 1981). The Primary Care Block Grant (PCBG) is not available until FFY 1983 (October 1, 1982) and the Elementary and Secondary Education Block Grant (ESEA) was forward-funded for July 1982 distribution.

The following are the summaries of actual and proposed block grant implementation dates and numbers of states selecting those dates (see Table 1 for actual dates by state):

		IMPLEMENTATION DATE		
BLOCK GRANT	10-01-81	10-01-82	OTHER (SPECIFY DATE)	
ADAMHA	42 STATES	3 STATES	01-01-82 2 STATES	
PCBG	N.A.	8 STATES	UNDECIDED 2 STATES	
PHSBG	42 STATES	3 STATES	01-01-82 2 STATES	
MCH	44 STATES	2 STATES	01-01-82 1 STATE	
SSBG	50 STATES			
CSBG	34 STATES	9 STATES	01-01-82 2 STATES	UNKNOWN 1 STATE
LIEAP	50 STATES			
ESEA	N.A.	16 STATES	30 STATES (see Table 1)	NO REPORT 2 STATES
CDBG	8 STATES	6 STATES	36 STATES (see Table 1)	

2. If your state elected not to implement a particular block grant in FFY 1982, please give a brief explanation of the reason.

The preponderance of states electing not to implement certain block grants in FFY 1982 provided explanations primarily for the Community Development Block Grant (CDBG), Community Services Block Grant (CSBG), and Primary Care Block Grant (PCBG).

TABLE 1

Block Grant Implementation Dates By State

State	Block Grant								
	ADAMHA	PCBG[1]	PHSBG	MCH	SSBG	CSBG	LIEAP	ESEA[2]	CDBG
Alabama	10-81	N.A.[3]	10-81	10-81	10-81	10-81	10-81	07-82	10-81
Alaska	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	10-82	10-82
Arizona	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	10-82	N.A.
Arkansas	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	10-82	UND.
California	10-82	N.A.	10-82	10-82	10-81	10-82	10-81	10-82	10-82
Colorado	10-81	N.A	10-81	10-81	10-81	10-82	10-81	10-82	UND.
Connecticut	10-81	UND.[4]	10-81	10-81	10-81	01-82	10-81	10-82	UND.
Delaware	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	UND.	12-81
Florida	10-81	N.A.	10-81	10-81	10-81	UND.	10-81	UND.	UND.
Georgia	10-81	10-82	NO REPORT	10-81	10-81	10-82	10-81	NO REPORT	10-82
Hawaii	01-82	N.A.	01-82	10-81	10-81	10-81	10-81	07-82	10-82
Idaho	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	10-82	10-81
Illinois	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	10-81
Indiana	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	06-82	UND.
Iowa	10-81	10-82	10-81	10-81	10-81	10-81	10-81	07-82	01-82
Kansas	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	UND.
Kentucky	10-81	10-82	10-81	10-81	10-81	10-81	10-81	07-82	10-81
Louisiana	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	UND.
Maine	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	UND.
Maryland	10-81	N.A.	10-81	10-81	10-81	10-82	10-81	10-82	10-82
Massachusetts	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	UND.
Michigan	10-81	10-82	10-81	10-81	10-81	10-81	10-81	10-82	05-82
Minnesota	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	UND.
Mississippi	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	10-82	UND.

[1] The Primary Care Block Grant (PCBG) is unavailable until FFY 1983 (October 1, 1982).

[2] The Elementary and Secondary Education Block Grant (ESEA) was forward funded for July, 1982.

[3] N.A. - not available

[4] UND. - undecided

Block Grant Implementation Dates By State (Continued)

State	Block Grant								
	ADAMHA	PCBG	PHSBG	MCH	SSBG	CSBG	LIEAP	ESEA	CDBG
Missouri	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	07-82
Montana	10-82	N.A.	10-81	10-81	10-81	01-82	10-81	10-82	10-81
Nebraska	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	09-82	04-82
Nevada	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	10-82	10-82
New Hampshire	01-82	N.A.	01-82	01-82	10-81	01-82	10-81	07-82	UND.
New Jersey	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	N.A.
New Mexico	10-81	N.A.	10-81	10-81	10-81	UNK.[5]	10-81	07-82	UND.
New York	10-81	10-82	07-82	07-82	10-81	10-82	10-81	07-82	UND.
North Carolina	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	UND.
North Dakota	10-81	10-82	10-81	10-81	10-81	10-81	10-81	07-82	10-81
Ohio	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	04-82
Oklahoma	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	UND.
Oregon	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	10-82	N.A.
Pennsylvania	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	N.A.
Rhode Island	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	N.A.
South Carolina	10-81	UNK.	10-81	10-81	10-81	10-81	10-81	07-82	10-81
South Dakota	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	10-82	UND.
Tennessee	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	10-81
Texas	10-81	N.A.	10-81	10-81	10-81	10-82	10-81	07-82	UND.
Utah	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	10-82	06-82
Vermont	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	N.A.
Virginia	10-81	10-82	10-81	10-81	10-81	UND.	10-81	10-82	UND.
Washington	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	N.A.
West Virginia	10-81	10-82	10-81	10-81	10-81	10-82	10-81	NO REPORT	07-82
Wisconsin	10-82	N.A.	10-82	10-82	10-81	10-82	10-81	07-82	[6]
Wyoming	10-81	N.A.	10-81	10-81	10-81	10-81	10-81	07-82	03-82
American Samoa									
Guam									

[5] UNK. - unknown

[6] Planning grant received

Block Grant Implementation Dates By State (Continued)

State	Block Grant								
	ADAMHA	PCBG	PHSBG	MCH	SSBG	CSBG	LIEAP	ESEA	CDBG
Puerto Rico									
Virgin Islands									
No. Mariana Islands									

Forty-two of the responding states chose not to implement the CDBG on October 1, 1981. Their reasons include:

- the majority are hampered seriously by the slow pace of Housing and Urban Development's (HUD's) regulations process;
- there is a lack of sufficient planning time, particularly for local input; and
- legislatures have not been in session and therefore have not authorized the acceptance of the program.

It would appear that the second and perhaps third reasons above could be related to HUD's regulatory process.

By and large, all twelve states electing to implement the CSBG at some later date, indicated that the basic driving forces behind that decision were the facts that the program always has been primarily a federal government-to-local agencies program, with little state control; lack of planning time because of late passage of federal legislation; and real uncertainties regarding federal funding levels. One state reported that there was heavy opposition from the local agencies against the state assuming administration of the CSBG before FFY 1983.

There were very few comments about the PCBG. Those comments generally were: "the state has not decided to administer the program yet", or "the net worth of the program, in federal dollars received by the state, does not offset the administrative burden incurred for operation of the program".

3. Block grants allow a certain percentage of funds to be transferred to other grants or programs. If your state is utilizing this provision, indicate the specific grant(s) or program(s) to which funds are being transferred.

One of the major positive features of the Omnibus Reconciliation Act of 1981 is the provision that allows states some latitude in transferring funds among block grants (see Table 2 for actual transfers by state). Of the states reporting, twenty-seven have elected not to transfer funds during FFY 1982. The majority of these states have indicated that either there is inadequate time for decisionmaking in this area or that legislative requirements at this time preclude transfer.

Significantly though, in the first year, a number of states elected to exercise the transferability provision. Twenty states elected to transfer funds to their SSBG with nineteen of those transferring funds from LIEAP and one from CSBG. Eleven of those transfers were for the maximum of 10 percent, with the remainder ranging from 1.4 percent to 9 percent. All of the transfers were made for the purpose of continuing essential social services to citizens and in many cases were driven by shortfalls in funds available to the states from the amount previously available under Title XX in FFY 1981.

TABLE 2

State Use of Transferability For Block Grants

States	ADAMHA		PHSBG		SSBG		CSBG		LIEAP	
	Transfer To	%	Transfer To	%	Transfer To	%	Transfer To	%	Transfer To	%
Alabama	N.A.[1]	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	10%
Alaska	N.A.	N. A.	MCH	3%	N.A.	N. A.	N.A.	N.A.	N.A.	N.A.
Arizona	N.A.	N. A.	N.A.	N.A.	N.A.	N. A.	N.A.	N.A.	N.A.	N.A.
Arkansas	N.A.	N. A.	N.A.	N.A.	N.A.	N. A.	OLDER AMERICANS ACT	5%	SSBG	10%
California	N.A.	N. A.	N.A.	N.A.	N.A.	N. A.	N.A.	N.A.	SSBG	10%
Colorado	N.A.	N. A.	N.A.	N. A.	N.A.	N. A.	N.A.	N.A.	WEATHER-IZATION	9%
Connecticut	N.A.	N. A.	N.A.	N. A.	N.A.	N. A.	N.A.	N.A.	N.A.	N.A.
Delaware	N.A.	N. A.	N.A.	N. A.	N.A.	N. A.	N.A.	N.A.	N.A.	N.A.
Florida	N.A.	N. A.	N.A.	N. A.	N.A.	N. A.	N.A.	N.A.	SSBG	10%
Georgia	MCH	3%	MCH	3%	N.A.	N. A.	MCH SSBG	10%	N.A.	N.A.
Hawaii	N.A.	N. A.	N.A.	N. A.	N.A.	N. A.	N.A.	N.A.	N.A.	N.A.
Idaho	N.A	N. A.	N.A.	N. A.	N.A.	N. A.	N.A.	N.A.	MCH	7½%

[1] N.A. - not applicable

State Use of Transferability For Block Grants (Continued)

State	ADAMHA		PHSBG		SSBG		CSBG		LIEAP	
	Transfer To	%	Transfer To	%	Transfer To	%	Transfer To	%	Transfer To	%
Illinois	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Indiana	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Iowa	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	5%
Kansas	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	WEATHERIZATION SSBG	11% 10%
Kentucky	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG PRIMARY CARE	9% 10%
Louisiana	MCH	3%	MCH	3%	N.A.	N.A.	N.A.	N.A.	SSBG	10%
Maine	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	WEATHERIZATION	15%
Maryland	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	8%
Massachusetts	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Michigan	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Minnesota	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Mississippi	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A	N.A.
Missouri	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	10%
Montana	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	10%

State Use of Transferability For Block Grants (Continued)

State	ADAMHA		PHSBG		SSBG		CSBG		LIEAP	
	Transfer To	%	Transfer To	%	Transfer To	%	Transfer To	%	Transfer To	%
Nebraska	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	10%
Nevada	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	CSBG	10%
New Hampshire	N.A.	N.A.	MCH	7%	N.A.	N.A.	N.A.	N.A.	N. A.	N.A.
New Jersey	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	MCH SSBG	1% 9%
New Mexico	N.A.	N.A.	N.A.	N.A.	SUBSTANCE ABUSE/ S.S.D.D.	15%	N.A.	N.A.	N.A.	N.A.
New York	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	10%
North Carolina	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
North Dakota	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	OLDER AMERICANS ACT	4%	WERATHER-IZATION	4%
Ohio	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Oklahoma	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	WEATHER-IZATION	15%
Oregon	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Pennsylvania	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Rhode Island	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
South Carolina	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

State Use of Transferability For Block Grants (Continued)

State	ADAMHA		PHSBG		SSBG		CSBG		LIEAP	
	Transfer To	%	Transfer To	%	Transfer To	%	Transfer To	%	Transfer To	%
South Dakota	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	10%
Tennessee	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	MCH WEATHER-IZATION	6% 12%
Texas	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Utah	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	UNK.[2]
Vermont	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	1.4%
Virginia	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Washington	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
West Virginia	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	9%
Wisconsin	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	SSBG	8%
Wyoming	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	OLDER AMERICANS ACT	5%	SSBG	10%
American Samoa										
Guam										
Puerto Rico										
Virgin Islands										

[2] UNK. - unknown

State Use of Transferability For Block Grants (Continued)

State	ADAMHA		PHSBG		SSBG		CSBG		LIEAP	
	Transfer To	%	Transfer To	%	Transfer To	%	Transfer To	%	Transfer To	%
No. Mariana Islands										

Nine states transferred funds to MCH from ADAMHA, PHSBG, LIEAP, and CSBG. These transfers ranged from 7.5 percent to 1 percent. These transfers were used primarily to offset shortfalls in critical program areas. The Community Services Block Grant (CSBG) in particular allowed for transferability to programs (non-block) under the Older Americans Act and three states decided to use this provision. Five states moved funds from LIEAP to their weatherization program, another form of energy assistance. In the majority of cases, the use of the transferability provision was from one block grant to another block grant and was not a "mixing and matching" among and between numerous block grants. The use of the transferability available in block grants indicates clearly that states take seriously even the limited flexibility provided to make decisions that best meet the human services needs of citizens.

4. All nine block grants require some degree of public involvement in determining the use of funds.

A. Please provide the requested information on the public participation process in your state for the various block grants in the first year of implementation. (The Primary Care Block Grant, omitted for FFY 1982, will not be in effect until FFY 1983.)

All states provided information on public involvement processes with regard to the block grants. In many states multiple approaches were taken within a single block grant as well as among the various block grants. Public participation data was gathered in three major categories: the approach to disseminating information, method of public participation, and unit of government responsible for the process. Each of these areas was subdivided further into such categories as newspapers, meetings, written comment, Governor's office, legislature, etc. The data basically indicated that:

- the two approaches for disseminating information—public meetings and newspaper ads—were used almost equally; the least frequently used method was public service announcements;
- the two methods for involving public participation—taking written comment and holding statewide meetings—were nearly equal in use; conducting regional meetings throughout the state was the next most frequent choice and conducting local meetings was the least common method (although local officials and administrators clearly were involved in the written comment process and in statewide and regional meetings); and
- the unit of government taking responsibility for the public participation process most frequently was that administrative agency responsible for a particular block grant; the Office of the Governor, followed closely by the State Legislature, were the units which next most frequently conducted the process.

Each of the major subdivisions cited previously allowed states to report other approaches used for public participation in the first year of block grant implementation. A number of different and creative approaches were being used by states: statewide teleconferencing, televised meetings, task forces, special constituency groups, and speakers for groups requesting information and/or input to the process.

One frequently heard criticism of block grants in the human services area was that they would allow state government to minimize the involvement of the public in determining the needs and planning for programs. If nothing else, the data provided by the states clearly and emphatically show that citizens were provided a multiplicity of opportunities to participate in the process of human services program development and decisionmaking.

B. If this process differs from that used prior to first year implementation of block grants, please describe these differences (by individual block grants, as necessary).

Twenty-five of the reporting states indicated that the public participation process varied from the past when the programs included in the block grants were categorical. The data from these states overwhelmingly indicate that for all of the programs (except SSBG, Title XX) this generally is the first year in which the public has been involved so heavily in the process of program decisions. Most of the states further indicated that for the first time there was legislative involvement, more meetings with citizens, coordination among and between block grants for public participation processes, and more attempts at interaction with local units of government. Again, the responses to this question, as to the one above, indicate a higher level of public involvement under block grants than in the past.

C. Will the public be informed regarding the final first year implementation plans?

The answer was affirmative in all of the states.

D. How will information be disseminated relative to the first year of operation of block grants?

Forty states advised that the citizens will be informed via one or more of the following:

- annual reports;
- state registers;
- news releases;
- FFY 1983 planning process;
- public meetings;
- newsletters;
- television announcements; and
- local agency offices.

Again, the data show that the public will participate on a regular, ongoing basis in the block grants process—from planning what is to be done to reviewing reports on what actually was accomplished.

E. Will the public participation process for the second year of implementation differ from that in the first year?

Thirty-five states reported that the public participation process for FFY 1983 will differ from the process used for FFY 1982. The majority of these states indicated that the most significant change would be the institution of public participation under the auspices of the state legislature. This primarily is a result of requirements enacted in federal legislation. The other more significant changes would be the establishment of more formal processes, greater coordination of public input for block grants, and more meetings. Some states will be having pre-plan development meetings and block grant review committees, and will include categorical programs for better coordination.

The eight states indicating that major changes were not being made did indicate that they would be making some attempts at streamlining the public participation process. Other reporting states were undecided on types of future changes.

Finally, the survey clearly indicates a high degree of public participation through a variety of standard and innovative approaches. This should be of interest to those persons, in and out of government, who believe that unless program prescriptions are provided, the states will not be concerned with services to citizens.

5. In what way has the easing of federal audit requirements for block grants alleviated financial and/or administrative burdens on your state, if at all? Specify any changes in procedure.

Seventy percent of the states (thirty-five) indicated that as yet they see no effect or that it is too early to recognize the impact of the easing of federal audit requirements for block grants on state financial and/or administrative burdens. As a matter of fact, six of the thirty-five indicated that with certain programs (such as CSBG) becoming a major state reponsibility, there probably will be a direct increase in state administrative and/or financial burdens due to new auditing requirements.

Some states reported that the Auditor General and/or Comptroller of Accounts will be designing standard auditing procedures for all block grants and that this, coupled with elimination of parallel auditing requirements for federal purposes, should yield a savings to the states.

Overall, the states, as yet, are not seeing or feeling any alleviation of financial or administrative burdens with regard to audit and administrative requirements since enactment of the block grants.

6. The Primary Care, Maternal and Child Health Care, and Community Development Block Grants require some form of state matching of federal funds. (For details, see Table 3.)

Since the PCBG has a delayed effective date, states have not had to fulfill the match requirements for this block grant as yet. For the Maternal and Child Health Care Block Grant, forty-five states will provide sufficient match, eighteen states will overmatch (supplement), and eighteen will require some amount of substate unit of government match. To date, approximately one-half of the states indicate that they will provide sufficient match for the CDBG and very few will supplement or require sub-state grantee match (see Table 3 for state data).

7. Has the role of the Governor's staff changed as a result of special provisions concerning the appropriation, allocation, or administration of block grant funds? If so, please explain.

Major shifts in the operational responsibility of direct staffs of Governors, to date, have not occured in twenty4 states. In those states signifying a change, the role of the Governor's staff included:

- more oversight and direction responsibilities;
- more planning responsibilities;
- more duties because of increased involvement with the legislature and actions inherent in block grants;
- more resource allocation decisions resulting from flexibility in use of funds; and
- increased activities with congressional delegation and executive branch Offices (however, this may be only a product of first year implementation problems/concerns).

8. Has your state legislature enacted any special provisions concerning the appropriation, allocation, or administration of block grant funds? If so, please explain.

Legislative bodies in fourteen states have not enacted any special provisions for block grants. The vast majority of states have tried to anticipate the block grant implementation process through special block grant advisory groups and the legislative appropriations process.

Advisory Groups

At least twelve of the states either have created special advisory task forces, joint legislative committees, or other special block grant review committees or have delegated block grant authority to a standing committee on appropriations, finance, or fiscal affairs. The purposes and authority of these units vary, but in general, they review the acceptance and use of block grants, monitor the block grant process and serve in advisory capacities to the Governor's office and state agencies, comment and make recommendations on the implementation of block grants, and in some instances, approve block grant allocations.

TABLE 3

Provision of State Matching Funds By Block Grant

State	PCBG			MCH			CDBG		
	Provide Sufficient Match	Supplement Match	Require Sub-State Match	Provide Sufficient Match	Supplement Match	Require Sub-State Match	Provide Sufficient Match	Supplement Match	Require Sub-State Match
Alabama	N.A.[1]	N.A.	N.A.	YES	NO	YES	YES	YES	NO
Alaska	NO	NO	YES	YES	YES	NO	N.A.	N.A.	N.A.
Arizona	NO	NO	NO	YES	YES	NO	YES	NO	NO
Arkansas	UNK.[2]	UNK.	UNK.	YES	YES	NO	UNK.	UNK.	UNK.
California	N.A.	N.A.	N.A.	YES	NO	NO	YES	NO	NO
Colorado	N.A.	N.A.	N.A.	YES	NO	NO	N.A.	N.A.	N.A.
Connecticut	UND.[3]	UND.	UND.	YES	NO	YES	YES	YES	YES
Delaware	N.A.	N.A.	N.A.	YES	N.A.	YES	YES	N.A.	YES
Florida	UNK.	UNK.	UNK.	YES	NO	NO	N.A.	N.A.	N.A.
Georgia	YES	NO	NO	YES	YES	YES	N.A.	N.A.	N.A.
Hawaii	YES	NO	NO	YES	NO	NO	YES	NO	NO
Idaho	N.A.	N.A.	N.A.	YES	YES	NO	YES	NO	NO
Illinois	UND.	UND	UND.	YES	YES	YES	YES	YES	YES
Indiana	UND.	N.A.	N.A.	YES	NO	YES	YES	YES	VARIES
Iowa	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	YES	NO	NO
Kansas	N.A.	N.A.	N.A.	YES	NO	YES	N.A.	N.A.	N.A.
Kentucky	N.A.	NO	NO	YES	NO	NO	YES	NO	YES
Louisiana	UNK.	UNK.	UNK.	YES	YES	NO	UNK.	UNK.	UNK.
Maine	N.A.	N.A.	N.A.	YES	YES	NO	YES	NO	NO
Maryland	N.A.	N.A.	N.A.	YES	YES	NO	YES	NO	UND.
Massachusetts	YES	UND.	UND.	YES	UND.	UND.	YES	NO	NO
Michigan	N.A.	N.A.	N.A.	YES	YES	NO	YES	YES	NO
Minnesota	N.A.	N.A.	N.A.	YES	N.A.	YES	N.A.	N.A.	N.A.

[1] N.A. - not applicable

[2] UNK. - unknown

[3] UND. - undecided

Provision of State Matching Funds By Block Grant (Continued)

State	PCBG			MCH			CDBG		
	Provide Sufficient Match	Supplement Match	Require Sub-State Match	Provide Sufficient Match	Supplement Match	Require Sub-State Match	Provide Sufficient Match	Supplement Match	Require Sub-State Match
Mississippi	N.A.	N.A.	N.A.	YES	YES	NO	N.A.	N.A.	N.A.
Missouri	N.A.	N.A.	N.A.	YES	YES	NO	YES	NO	NO
Montana	N.A.	N.A.	N.A.	YES	NO	YES	YES	NO	YES
Nebraska	N.A.	N.A.	N.A.	NO	NO	YES	N.A.	N.A.	N.A.
Nevada	NO	NO	NO	YES	YES	NO	YES	NO	NO
New Hampshire	NO	NO	NO	YES	YES	NO	N.A.	N.A.	N.A.
New Jersey	YES	NO	YES	YES	NO	YES	YES	NO	YES
New Mexico	N.A.	N.A.	N.A.	YES	NO	NO	N.A.	N.A.	N.A.
New York	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
North Carolina	UND.	UND.	UND.	YES	YES	YES	*	NO	NO
North Dakota	N.A.	N.A.	N.A.	YES	NO	YES	YES	NO	NO
Ohio	N.A.	N.A.	N.A.	YES	YES	NO	YES	YES	NO
Oklahoma	YES	UNK.	UNK.	YES	NO	YES	UND.	UND.	UND.
Oregon	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Pennsylvania	N.A.	N.A.	N.A.	YES	NO	YES	YES	N.A.	N.A.
Rhode Island	N.A.	N.A.	N.A.	YES	YES	YES	N.A.	N.A.	N.A.
South Carolina	N.A.	N.A.	N.A.	YES	UNK.	UNK.	UNK.	UNK.	UNK.
South Dakota	N.A.	N.A.	N.A.	YES	NO	NO	N.A.	N.A.	N.A.
Tennessee	N.A.	N.A.	N.A.	YES	YES	YES	NO	NO	N.A.
Texas	UND.	UND.	UND.	YES	NO	YES	YES	NO	YES
Utah	N.A.	N.A.	N.A.	YES	NO	NO	YES	NO	NO
Vermont	N.A.	N.A.	N.A.	YES	N.A.	N.A.	YES	YES	N.A.
Virginia	UND.	UND.	UND.	YES	NO	N.A.	YES	NO	UND.
Washington	N.A.	N.A.	N.A.	YES	NO	NO	UNK.	UNK.	UNK.
West Virginia	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Wisconsin	NO	NO	NO	YES	NO	YES	YES	NO	NO
Wyoming	N.A.	N.A.	N.A.	YES	YES	NO	YES	NO	YES

*Have not applied

Provision of State Matching Funds By Block Grant (Continued)

State	PCBG			MCH			CDBG		
	Provide Sufficient Match	Supplement Match	Require Sub-State Match	Provide Sufficient Match	Supplement Match	Require Sub-State Match	Provide Sufficient Match	Supplement Match	Require Sub-State Match
American Samoa									
Guam									
Puerto Rico									
Virgin Islands									
No. Mariana Islands									

Legislative Action

Legislatures in twenty-three states have approved, have pending, or have proposed one or more special measures specifically related to block grant implementation. These include:

- retainment by the legislature of full authority regarding block grants (legislative approval prior to block grant acceptance; administrative agency assignment; appropriations; assignment of responsibility for conducting public hearings);
- prohibition of centralization of block grants in one state administrative agency;
- requirement that block grant funding to agencies be in the same proportion as the previous year categorical grants;
- enactment of special provisions for administration of CDBG and CSBG (establishment of a CSBG distribution formula); and
- creation of a block grant trust fund and establishment of a block grant legislative review committee.

Other

In one state, the legislature twice placed language in the state fiscal appropriations act to approve block grant expenditures. The language first was "line-item" vetoed by the Governor and six months later it was "pocket" vetoed.

9. Have you taken, or do you plan to take, any steps to revise the authority or flexibility of local governments under block grants? If so, please explain.

Fifteen of the states have not revised the authority or flexibility of local governments under block grants during the current fiscal year.

Steps Already Taken

One state has reduced mandates; another state has given counties the flexibility to develop social service programs; two states have increased the role of local governments in CDBG by allowing them to prioritize funding needs; in one state, CDBG funds are distributed on a per capita basis for cities over 5,000 population and another state is providing CDBG flexibility in selected areas. "Mini" block grants to local governments are being distributed through the human resources committee in one of the states. One state has involved local officials in all aspects of block grant planning.

Steps Pending or Proposed

Flexibility for local governments has been proposed, is under advisement, or is pending in seventeen states. In two states, proposals for ADAMHA are pending with a proposal for SSBG also pending in one of these states. Five other states also have proposals pending; two states are planning to give increased flexibility in FFY 1983, with one of these plans being designed specifically for local health departments. Two states will emphasize different eligible activities under CDBG, thus involving local governments, and one state will provide CDBG flexibility if needed. Two states will strengthen the role of local governments in CDBG by involving them in funding decisions and in determining areas of priority needs. One state plans to "re-block" programs that have been direct federal-local programs in the past. A bill to allow local governments to establish human services management boards has been introduced in one state, and in another state a negotiated approach to block grants will be implemented in the second year for SSBG, with local governments participating in the negotiation.

10. Are there pending and/or anticipated law suits resulting from block grants? If so, please describe briefly.

Law suits resulting from block grants are neither pending nor anticipated in thirty-four states.

The Community Services Block Grant has resulted in law suits in two states. In one of the states, there is a dispute over the interpretation of Titles VI and XVII regarding (1) whether or not a public hearing was required in FFY 1982 and (2) whether the deadline for the filing of the state plan was timely. In the other state, a suit against the state was initiated when the state chose to establish a new grantee that would meet state management/administrative standards for operation of the CSBG program. Both the state and federal courts ruled in the state's favor, giving the state the right to determine eligibility for CSBG funds under certain circumstances.

The cuts in services and personnel stemming from the Social Services Block Grant have resulted in law suits in one state.

The potential for law suits exists in at least two other states: (1) as a result of an overall reduction in funds and (2) as a result of disagreements over equitable services for private school pupils under ESEA.

11. Each block grant, at least to some degree, provides the state with additional programmatic and administrative flexibility (below, as necessary, specify by block grant).

A. What steps, if any, have been taken to remove or simplify administrative burdens (e.g, regulations, guidelines, planning, budgeting, management control, procedures, reporting, etc.)?

Twenty-five states indicated that, primarily due to the late passage of federal legislation, federal funding uncertainty, and delayed regulations, they were unable to take any major steps to remove or simplify administrative burdens for FFY 1982. These states indicated clearly that they are actively reviewing possible changes that can be made in FFY 1983 in this area. A variety of mechanisms is being utilized for this review process: interagency task forces, Governors' offices work groups, state planning agency efforts, and citizen advisory committees.

For those states that have been able to institute some change in this area, the major efforts to date have centered around:

- simplifying or reducing report requirements with more uniformity across block grants;
- simplifying the applications to administering federal agencies, oftentimes reducing documents as voluminous as seventy pages to three or four pages;
- attempting to design uniform plan formats across program lines;
- reducing the complexity of state planning processes or requirements; and
- moving to create uniform auditing and fiscal monitoring for the human services block grants.

A number of the states that have instituted simplification in administrative burdens clearly have designed these changes to benefit local government units or providers of purchased services (e.g., mini-block grants for counties, grants-in-aid to providers of services as opposed to complicated contracts, and removal of federal regulations under the SSBG assigned to local level social services offices).

Four states indicated that there may be a slight increase in administrative burden as they assume programs included in the block grants that previously were direct federal-local categorical programs.

B. What steps have been taken to modify programs or program structures?

Fifteen states currently are reviewing programs to determine what modifications may result from the implementation of block grants.

Ten states reported that no modifications have been made in programs or program structures. In many of these, modifications would require legislative action and the legislatures were not in session at the time block grants were passed. Other states already have administrative agency structures that encompass the majority of the block grants and thus see no need for change.

At least seven states described program modifications that allow for better "targeting" of resources. This resulted from changes in federal legislation but more specifically from elimination or easing of federal regulations. Examples of this targeting approach include:

- the ability to extend CSBG coverage to previously ineligible state areas and citizens;
- an integration of CSBG and CDBG to focus on the objectives of employment and economic development;
- the utilization of existing community resources such as school cafeterias and school buses to extend CSBG services;
- an increase of local opportunities (rural particularly) to utilize CDBG funds; and
- the integration of certain human services block grants for more efficient administration and coordination of services.

The changes brought about by the SSBG have permitted a number of states to eliminate underutilized mandatory services, establish fee structures for certain social services, and utilize the SSBG as a base for the integration of smaller, categorical social services programs.

The health block grants have allowed two states to consolidate a number of small, less effective health programs into a larger, more family-oriented approach to health services.

C. Have eligible recipient groups been modified? If so, which?

Thirty states report that to date there have been no changes or only minor modifications in eligible recipient groups resulting from passage of the block grant legislation. The majority of these respondents indicated that their decision not to modify eligible recipients was based on either the late date of the passage of the Omnibus Reconciliation Act of 1981 or on the continued appropriateness of current eligible recipient groups.

In five states, considerations for modificatinos of eligible recipients is under review and may result in changes for FFY 1983.

The remaining states with modifications in place emphasized that the majority of these were made as a direct result of reductions in federal funds (e.g., a number of states made changes in day care eligibility as a result of the SSBG funding level).

D. Has there been a change in grantees? If so, which?

Thirty-three states have not made changes in grantees under the block grants. The majority of these stated that it would be premature to do so the first year because (1) in some instance, the changes would require legislation and the legislature was not in session and (2) the current grantees were appropriate, though funds might be reduced, not eliminated.

Eight states will be studying possible options for changing grantees and, as previously indicated, are utilizing interagency task forces and advisory committees to assist in these decisions.

In those states where grantees changed, the change was made for the following reasons:

- poor performance by previous grantee;
- ADAMHA block grant funds going first to counties instead of directly to mental health centers; and
- insufficient funds to continue the vast number of purchased social services providers under SSBG, particularly where services were being utilized marginally.

E. Has there been a change in providers of services? If so, which?

Twelve states reported changes in providers and all of these were under the SSBG. The universal reason was the reduction in federal dollar amounts as compared with FFY 1981 Title XX dollar amounts.

Twenty-five states indicated that they had made very little or no change to date. One of these states advised that there will be no need for change because a single state agency presently administers the majority of the block grants passed.

The remaining states are studying whether in FFY 1983 they will make changes in services providers and whether the changes will be based on expected or anticipated budget reductions.

12. The Governor's office, under the Omnibus Reconciliation Act of 1981, now has responsibility to assure compliance with the non-discrimination provisions of the recently enacted block grants.

A. Has a person on the Governor's staff or an administrative unit of government been designated as the contact for non-discrimination compliance issues which recipients or providers of services may initiate?

In the twenty-eight states responding "yes", a person on the Governor's staff or in an administrative unit of government has been designated the special contact for issues of non-discrimination compliance that may arise.

B. If no, what plans do you have for establishing an appropriate mechanism for resolving such issues initiated involving recipients and providers?

In seven of the twenty-two states responding "no" to this question, existing procedures and mechanisms will be utilized to resolve issues of non-discrimination compliance. The existing procedures may involve mandates established by state law, a hearing process, a civil rights commission, or individual state agency responsibility for equal opportunity functions. In four states, it is anticipated that a state agency will be delegated the task of expediting non-discrimination compliance issues while in four other states, this question is under review. Two states do not have specific plans for responding to these issues or indicate that procedures will be established as required. One state has appointed an interagency task force which is developing plans for resolving non-discrimination compliance issues and another has requested that its Lieutenant Governor's Task Force define appropriate roles.

13. Please provide the name, address, and telephone number of the person on the Governor's staff to be used as the contact on all block grants.

Information is provided in Appendix A.

14. Which state administrative agency has (will have) the actual implementation responsibility?

ADAMHA: In forty-eight states, administrative agencies charged with sole implementation of the Alcohol, Drug Abuse and Mental Health Block Grant can be divided into six categories (list follows). In three of the states, implementation responsibility is shared with one or two other departments or agencies.

1. Department of Health (and various name combinations thereof, e.g., Health and Environment, Health and Human Services, Health and Mental Hygiene, Health and Welfare, Public Health, etc.)—nineteen states;
2. Department of Mental Health/Hygiene—fifteen states;
3. Department of Human Resources (Social Services; Rehabilitation; Public Welfare)—seven states;
4. Department of Alcohol and Drug Abuse (Substance Abuse)—three states;
5. Department of Public Institutions—two states; and
6. Office of the Governor (Executive Office of Human Resources)—two states.

PCBG: Out of twenty responding states, administration for the Primary Care Block Grant is as follows:

1. Department of Health—sixteen states;
2. Department of Human Resources—three states; and
3. Governor's Office of Federal-State Programs—one state.

PHSBG: Responsibility for administering the Preventive Health Services Block Grant in thirty-five states is as follows:

1. Department of Health—thirty states; and
2. Department of Human Resources (Social Services; Public Welfare)—five states.

MCH: Implementation responsibility for the Maternal and Child Health Care Block Grant in thirty-eight states is listed below; in one of the states, the responsibility is shared by two departments.

1. Department of Health—thirty-four states; and
2. Department of Human Resources (Social Services)—four states.

SSBG: Of fifty states responding, the Social Services Block Grant is being administered as follows:

1. Department of Human Resources (Social Services; Public Welfare)—forty-three states;
2. Department of Health—five states; and
3. Department of Pensions and Economic Security—two states.

CSBG: The Community Services Block Grant is being administered as follows:

1. Department or Office of Community Affairs (Services; Development)—twelve states;
2. Department of Human Resources (Social and Rehabilitation Services; Public Welfare)—nine states;
3. Governor's Office of Community Affairs (Federal-State Programs)—five states;
4. Office/Bureau of Planning/Programs—four states;
5. Office of Economic Opportunity—three states;
6. Department of Health and Social Services—three states;
7. Office of Economic Security—two states;
8. Department of Labor—one state; and
9. Department of Natural Resources and Community Development—one state.

LIEAP: Home Energy Assistance Block Grant implementation is under the auspices of the following departments in forty-two states:

1. Department of Human Resources (Social Services; Public Welfare)—eighteen states;
2. Department or Office of Community Services (Development)—nine states;
3. Department of Health and Social Services—five states;
4. Office of Pensions and Security (Economic Security; Family Assistance)—four states;
5. Governor's Office of Federal-State Relations (Community Affairs)—three states;
6. Office of Policy Management—one state;
7. Office of Economic Opportunity—one state; and
8. Energy Policy Council—one state.

ESEA: In forty-six states, the responsibility for implementing the Elementary and Secondary Education Block Grant falls within the Departments of Education, Public Instruction or Boards of Education, Elementary and Secondary Education.

CDBG: Out of thirty-seven responding states, responsiblity for administration of the Community Development Block Grant is as follows:

1. Department of Economic Development (Urban and Community Affairs; Community Development—twenty states;
2. Department of Commerce—four states;
3. Governor's Office of Federal-State Programs (State Planning and Development)—four states;
4. Department of Finance—two states;
5. Department of Housing—two states;
6. Department of Energy, Planning and Development—one state;
7. Department of Natural Resources and Community Development—one state;
8. Office of Consumer Affairs—one state;
9. Office of Federal Aid Coordinator—one state; and
10. Office of State Planning—one state.

FISCAL IMPACTS OF FFY 1982 BLOCK GRANTS

Changes in spending patterns caused by the 1982 federal budget and program initiatives are being tracked by the National Association of State Budget Officers (NASBO). During the initial phase of this project, the states were asked to quantify the anticipated impacts of the federal changes during state fiscal year 1982 (July 1, 1981-June 30, 1982 in all but four states). Preliminary analysis of data in block grant areas from twenty-two states reveals the following patterns:

- Aggregate state expenditures will remain virtually unchanged, with an insignificant drop of 0.05 percent. The spending in nineteen states is within the range of +5.8 percent to -3.3 percent from prior year levels. South Dakota will reduce spending in block grant areas by 28.6 percent, while the State of Washington will increase spending by 17.3 percent. In these two cases, spending priorities have been examined carefully and fully offsetting increases/decreases have been made in human service programs outside of the block grant categories.

- Federal funds received by the states are expected to fall by an average of 10.8 percent in the block grant programs. The difference between the 10.8 percent reduction in state receipts and the 13.2 percent reduction in federal appropriation levels represents only a very slight delay in the fiscal impact of block grant legislation. This contrasts with some expectations that the impact might be delayed due to the difference between state and federal fiscal years and due to the fact that some aid is received after the fiscal year quarter in which it became due.

- Changes in federal funds compared with the prior year range from +2.3 percent to -19.8 percent. The range appears to be explained by the widely varying mix of block grants and other aid programs utilized by individual states.

1981-83 FISCAL SURVEY

(Preliminary Partial Report from 24 States)
as of February 1, 1982

GENERAL FUND SUMMARY FY 1981-83
(24 STATES)

	(in billions)			
	FY 1980 Actual*	FY 1981 Actual	FY 1982 Estimate	FY 1983 Estimate
Available Funds	137.3	44.5	46.9	46.5
Expenses	126.0	40.6	45.4	44.3
Ending Balance	11.3	2.6	1.5	2.2
Balance as Percent of Expenses	9.0	6.4	3.4	5.0

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*Fiscal Survey of the States 1980-1981
(50 states reporting, published October 1981.)

This table represents summary data on the fiscal condition of the twenty-four responding states combined into national totals. The important trends or conditions reflected are:

1. The fiscal year ending balance as a percentage of expenses continues to decline. From FY 1980 actual 9.0 percent to FY 1981 actual 6.4 percent is a drop of 29 percent.

2. The projected FY 1982 estimated balance as a percentage of expenses is 3.4 percent. This is a projected drop of 46 percent and may reflect the estimated continuing impact of the recession on state revenues and actual and anticipated federal fund reductions.

STATE NARRATIVES

This section of the publication
contains information provided by states
and is for the purpose of exchanging information
on "what is working" in changing
intergovernmental relations.

This material was prepared by and in cooperation with

THE COUNCIL OF STATE PLANNING AGENCIES

Introduction

The narratives which comprise this section of the publication are the states' responses to a special request made in the survey. Recognizing the need for national exchange of information and mutual assistance among states, respondents were asked to describe briefly at least one of the following:

- a policy change (underway or being contemplated) associated with human resource and community development programs folded into the block grants;
- a planning or management practice being applied to block grant implementation; and
- a major problem encountered during the year about which states could learn.

General Observations

The responses fall into roughly four types of reports:

- updates on block grant implementation progress;
- descriptions of tactics being employed to absorb sharp cuts in federal aid;
- discussion of long-term improvements to state government planning and management systems that are being applied to immediate concerns; and
- comments about program and policy changes which hold promise of long-term utility in managing and delivering human and community services.

State Progress in Implementing Block Grants

Though not specifically requested to do so, many states chose to report the accomplishments, as well as the barriers they encountered, in block grant implementation.

The summaries contain many similarities, yet they indicate that Governors are utilizing approaches uniquely tailored to the needs of their states. The major similarities are as follows:

- Governors have made use of task forces to bring about closer executive/legislative cooperation, increase participation in decisionmaking by the general public/local officials, and coordinate inter-executive agency actions. and
- Governors, wherever possible, have made use of existing state mechanisms and have established committees to implement block grants.

Descriptions of tactics being employed (and problems encountered) in absorbing federal funding reductions have been submitted by several states. It is apparent that current and proposed budget cuts are the overwhelming concern of state officials. Descriptions of state approaches to cope with the problem cover a wide range:

- across-the-board reductions for FFY 1982 while preparing strategies for FFY 1983 with long-term utility;
- priority-setting for more discrete targeting of state funds;
- acceptance and allocation of all federal funding, regardless of funding stream; and
- budget processes driven by policies and plans to be tested against FFY 1982 shortfalls.

Reports of improvements to state planning and management systems as applied to block grant implementation and funding reductions have been submitted by many states. The summaries describe practices that have been utilized among key actors in state decisionmaking—executive and legislative branches, local governments, citizens, the private sector, and federal government. Narratives describe practices that are:

- bringing about consensus among executive agencies;
- improving state-local relationships;
- fostering citizen participation in decisionmaking;
- disseminating information on progress and achievements to the general public;
- involving the private sector in government decisionmaking and program support; and
- substituting state-developed processes and plans for federal requirements.

These improvements have long-term implications for strengthening the state role in achieving local, state, and national domestic goals.

Community and human services policies and program changes have been noted in several state narratives, the features of which include:

- increased program efficiencies and effectiveness;
- shifted resources among client groups;
- new methods of delivering services (new combinations of services, elimination of services); and
- utilization of federal government waivers.

Several states have approached policy changes from a different perspective: descriptions of conceptualizing pressing policy issues contrast with reports of developing innovative policy. One state describes the necessity for "taking off the program hats" worn by state officials in efforts to bring about health care reforms. Another respondent summarizes the need for "investing in human capital".

It is interesting to note the program areas in which policy and program changes are occurring. A number of states discuss approches they are taking to target state resources and move recipients off welfare roles into employment and self-sufficiency. Others describe initiatives to improve the return on public expenditure for education. Still others outline strategies to target development funds to communities most in need. One group of states offers approaches for increasing the effectiveness and efficiency of health care for citizens.

A final observation regarding the narratives must be made. Without exception respondents are extremely interested in finding out about initiatives underway in other states. In follow-up telephone discussion with these state officials, they have commented upon the value of a national exchange of information and mutual assistance among states in order to strengthen the states' role in the months and years ahead. Respondents indicate that the importance of making significant changes is clear, that each state is thinking through and making changes and improvements appropriate to its needs, and that sharing information and strategies is essential.

Conclusions

States are interested in and will support the creation of mechanisms to share information on human resources policy options and planning/management reforms among the states.

A set of practical approaches has emerged from an analysis of thorny issues such as states describe in their narratives and it is reflective of the dynamics of actual state decisionmaking processes.

At a special Governors' work session on block grant implementation during the National Governors' Association 1981 summer meeting in Atlantic City, major themes were identified and subsequently have been refined by the states during their initial stages of block grant implementation. Those themes are as follows:

- building interagency consensus within the executive branch of state government;
- developing executive-legislative coordination
- improving state-local partnerships;
- fostering citizen participation in decisionmaking
- informing the public of progress and achievements
- involving the private sector (for-profit, non-profit, and foundations) in decisionmaking and program support; and
- substituting state-developed processes and plans for federal requirements.

Actions states can and should take, to further strengthen their management roles in the National Economic Recovery Program and their administrative roles in delivering essential human and community services to their citizens, need further attention. In light of this, a framework for an exchange of relevant information and for mutual assistance among states in their deliberations and actions is offered. Although it needs refinement, this framework is essential for the 1980s as this decade presents an unparalleled opportunity for states to reorder their community and human service priorities. Central questions to be considered in the development of these issues are:

- What is the economic and political environment in which human and community services will be set?
- What will the service needs and demands be in this decade? and
- What policy and program changes should be made to meet service needs within economic and political constraints?

The narratives underscore that present economic considerations and political realities are forcing states more than ever before to confront the allocation of community and human resources. Furthermore, the policy changes reported by some states point to priorities that cannot continue to be advanced through narrow perspectives which pigeonhole human and community needs according to former funding formulas.

ALABAMA BLOCK GRANT POLICY AND MANAGEMENT

The State of Alabama has sought the best possible means to implement block grants. This has meant searching for unique, innovative, cost-effective, and workable ways to accomplish this end with minimum effect from any political pressures from within or without. We believe we have been successful in devising a policy and a system to achieve both objectives.

State Inter-Agency Council on Block Grants Leadership Role

In August 1981, Governor Fob James, by Executive Order, created an Inter-Agency Council on Block Grants. The Council was composed of the Governor, directors of those state agencies most affected, and other interested boards or commissions.

The Council studied the impact of the federal changes upon the various state agencies and programs and worked together in planning for the impact of those changes. The Council convened and for each block grant appointed a task force to:

- identify programs included or proposed to be included in the block grants;
- review present programs to assess the need to continue them and at what level;
- estimate budget figures for fiscal years 1981-1982 and compare with previous years;
- identify problems and other issues;
- invite comment and participation from other interested groups, including representatives of impacted constituents; and
- make recommendations on the distribution of the block grants, including a narrative explanation and justification by individual program.

Each task force submitted its report to the Inter-Agency Council which, after comparing the results with what other states were doing or proposing to do (in terms of methodology, membership, targets, etc.), prepared a State Plan containing recommendations for the Governor and Joint Legislative Committee.

Task Force Actions

The task forces were most effective in coordinating funding of programs between agencies and in determining need for transfer of funds. Each task force negotiated for federal funding with the lead agencies for various programs, e.g., the Task Force on Home Energy Assistance Block Grant (LIEAP) agreed to transfer the 10 percent allowable under that particular grant to the Department of Pensions and Security to support Title XX Social Service programs.

To foster citizen participation, public hearings were conducted in four geographic areas of the state. Hearings were given newspaper coverage to encourage citizen participation. The meetings were chaired by members of the Legislative Committee, with members of the State Planning Office and staff from lead agencies assisting. Both written and oral presentations were given and ideas for procedural changes and implementation of the block grants were heard from representatives at the local, executive and legislative levels. All questions and comments were recorded, reviewed, and considered by the hearing panels and information was made available to all know interested parties.

Design and administration of the Community Development Block Grant (CDBG) program was different. Two working committees were established: the Technical Advisory Committee (composed of seven members and six alternates representing all geographic areas of the state) and the Policy Committee (composed of six members representing city/county government, state legislature and administration, regional planning and development agencies, and HUD). The Policy Committee served as principal adviser to the Technical Advisory Committee which in turn made recommendations to the Policy Committee for presentation to the Governor and Legislative Committee. Close working associations on the part of these individuals resulted in a program which will implement the CDBG and benefit the state with maximum participation on the part of the public and private sectors.

Success Factors

In summary, the critical success factors in Alabama's implementation efforts have been: communicating effectively between all participating individuals and groups; cooperating by sharing ideas and concerns and coordinating between executive, legislative, and local officials; and, most importantly, keeping political actions and interactions to a minimum.

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ALASKA EVALUATION OF STATE DECISIONMAKING

Transition Planning Effort

The Governor's Office recognizes the need for well-planned, consistent, and in many cases rapid decisionmaking in response to recent and future changes in federal policy and the transition to expanded state responsibility. Such federal policy changes, particularly in the area of human services, result in a complex set of decisions for the state encompassing short-term budgetary issues, as well as long-term planning, program mangement, and funding alternatives.

Therefore, the state plans to evaluate the current decision-making and planning process with an eye toward a more flexible and integrated system which will, of necessity, cut across traditional organizational structures. The anticipated activities toward this goal include:

- organizing information on the effect of recent federal policy changes on local, state, and federal programs in Alaska, including reductions in funding, changes in program restrictions, and other policy changes;
- identifying decisions facing the state regarding these impacts, e.g., the administration of block grants; and
- determining the options available to the state in response to these decisions and developing policy criteria for use in choosing among identified options.

The Office of the Governor has applied for funds to initiate this effort, and will form a committee of Governor's budget and policy staff and affected departments to guide the project.

Problems in Block Grant Administration

The most vexing problem being experienced in block grant administration is the shortfall between federal promises and delivery. The President's original concept of much greater state control over programs has not materialized. Little in the way of genuine new flexibility in program administration can be found in the FFY 1982 round of block grants. The blocks generally consist of programs that:

- previously were run by the states as a block (Title XX/Social Services Block);
- previously were run by the states as a single program (Home Energy Assistance);
- contain "hold harmless" mandates to continue funding existing grantees (Mental Health, Preventive Health and Health Services, Primary Care); or
- set rigid formulas for use of the funds in order to preserve old federal priorities (Alcohol and Drug Abuse).

Far fewer categorical programs were combined in the blocks than was expected, based on early rhetoric. Yet, the reduction in federal funding support of the programs that were blocked greatly exceeded the amounts that the Governors agreed could be saved under the original consolidation plan. The net result, from our state's perspective, has been a reduction in the state's ability to deliver vital health and social services. The true impact of this reduced capability will be felt as the state enters the State Fiscal Year 1983 in July 1982.

A related problem is the flow of misinformation resulting from promises of flexibility and discretionary funding that never materialize. Unrealisitic expectations are created in the community by federal announcements. It falls to state officials to explain the real picture, when citizens and organizations request services and a share of the federal bounty.

Ironically, while releasing little federal control over block granted funds, the Omnibus Reconciliation Act requires the states to create appurtenances of local control such as public hearings and even legislative hearings. This runs up the cost to the state of administering the funds to little practical effect. The cost of increased coordination and planning in sparsely populated states such as Alaska ultimately may exceed the value of the tiny block grant allocations the state receives.

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ARIZONA WORK INCENTIVE DEMONSTRATION PROGRAM

Program for Reducing AFDC Costs

Arizona has submitted a Work Incentive Demonstration Program to the federal government that outlines approaches to reducing government expenditures for public assistance by training and placing in unsubsidized employment those persons who receive assistance under Aid to Families with Dependent Children (AFDC) and food stamps.

Recent research has indicated that lack of job skills, job-finding skills, access to transportation, child care and employment opportunities have contributed toward increasing dependency on public assistance. The Arizona proposal, which has been approved by the federal government, will provide training, job-seeking skills, and placement into unsubsidized employment for a total of 12,000 participants during the three-year demonstration program. The proposed date of full program implementation is July 1, 1982. All participants will be trained prior to placement in the private or public sector. Skills training will consist of a variety of options based upon labor market needs in Maricopa and Pima counties. The development of positive work attitudes and habits will be a key element of the program and will be accomplished through a philosophy inherent to the program that learning to work is as critical as learning a marketable skill. The program will enhance the job-seeking skills of the participants by making them self-sufficient in identifying potential job openings and effectively applying and competing for jobs, whether it would be in the public or private sector.

Available Job Opportunities

Although Arizona currently is experiencing a slack period of employment growth, Department of Economic Security economists forecast that 66,433 new jobs will be created in 1983, and 646,865 new positions will be created between now and 1990. The majority of these job opportunities will be entry-level occupations such as salesclerks, laborers and unskilled workers, general office help, waiter or waitress, cashier, food preparation, unskilled assembler. These jobs require minimal or no previous experience, have a high turnover rate, and represent 20 percent of employment in Arizona.

Program Participants

A preliminary analysis of potential participants for the program indicates that 42 percent have completed twelve or more years of schooling, 78 percent are between the ages of 21-44, 95 percent are female heads of household, and 71 percent reside in Maricopa County. The average monthly payment per recipient is $63. This analysis would indicate that nearly half possess a basic education and that the monthly AFDC payment should not serve as a motivational deterrent to seek employment. Of the approximately 23,000 AFDC households in Arizona, an estimated 11,000 will be eligible to participate in the program. Of the 72,000 food stamp recipients in the state, an estimated 5,000 would be required to participate in work experience. (Most of the AFDC households are included in the food stamp total.) All new applicants for AFDC or food stamps, as well as those receiving benefits, will be required to register and move immediately into the program. Stringent criteria will be used in determining exemptions. The only exemptions will be for children under 19 who are attending school full time, people who are ill or disabled, mothers with children under 3, and the elderly.

Program Components

In order to insure the success of the program, Arizona Department of Economic Security will implement the following strategies:

- Private Sector Partnership—job placements will be solicited in the private labor market. Employers who participate will be eligible for increased tax credits of up to $4,500 over a two-year period under the Targeted Jobs Tax Credit programs. Participants referred to the private sector already will have received appropriate intensified skills training.
- Government Productivity Program—state government agencies will be requested to identify entry-level positions and participants will be trained to compete for those positions.
- Contractor Incentive Program—contractors with the Department of Economic Security in the area of day care, residential homes, maintenance and aid to the elderly will be encouraged to employ some of the participants in their operations.

- Private Business Development—the Department of Economic Security will assist community-based organizations in the development of private businesses which could become self-supporting with the understanding that these businesses will employ work incentive participants. Initial efforts will focus on day care.
- Employment Service Potential—a concentrated training system utilizing community colleges and existing training institutions will be developed to prepare a pool of job-ready individuals in occupational areas identified by growth industries.
- Job Search Workshops—participants will be provided classroom training and information on self-help job-seeking skills, such as how to conduct a job interview, use of yellow pages to identify potential employers, use of telephone in obtaining job interview appointments, and how to complete an application or develop a resume.
- Hard-To-Place Clients—the existing resources of the Department of Economic Security's Employment and Training and the Vocational Rehabilitation programs wil be used to develop a training system for those individuals who have little or no employable skills and those with other exceptional problems which will assist them in becoming self-sufficient, job-ready, or productive in a workfare situation.

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ARKANSAS MISCELLANEOUS FEDERAL GRANT ACT

In Arkansas, block grant implementation has made use of existing mechanisms and government structure to ease the task of transition. Since all of the affected programs are administered from a state level and federal monies are appropriated in the normal budget process, it has not been necessary to develop special strategies for responding to the major block grant issues experienced across the nation.

Of note to others, however, is state legislation—The Miscellaneous Federal Grant Act—already in place that allows the state to receive unanticipated federal funds during an interim between legislative sessions. Through provisions of the act, the state is able to set up the Alcohol and Drug and Mental Health Block Grant and the Community Services Block Grant with no additional legislation needed, and the Office of the Governor and the Department of Finance and Administration can review and act upon the grants.

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CALIFORNIA INVESTMENT IN HUMAN RESOURCES

Long-term Needs for State Economic Growth

Perhaps the federal budget cuts which will be most harmful for California over the long-run are those in education and job-training. Education cuts impede the state's ability to equip its youth for the increasingly sophisticated economy and society they are entering. Job-training cuts make it harder to retrain workers displaced by automation and/or the national recession, to consign welfare recipients and youth from areas of high unemployment, and others indefinitely to the dole.

California Human Investment Initiatives

California, therefore, is looking more closely at its need to invest in human capital for a changing economy. Despite a $2 billion shortfall in revenues needed to keep state spending at an inflation-adjusted 1981-82 level, the Governor's budget for 1982-83 proposes several new initiatives and some program redirections designed to enhance California's investment in education, science, and job-training. The major components of this effort are:

- $11 million for the California community colleges to expand employment-based job-training through the California Worksite Education and Training Act (CWETA) and to train teachers for the new technical careers of the future;
- $20 million for training elementary and secondary math and science teachers and providing instructional materials, including computers for instructional use;
- $7 million for expanding engineering education at the University of California and the state university;
- $8 million for intensive job search assistance and job-training for welfare recipients;
- $2 million for special job placement and retraining for workers displaced by layoffs and plant closings;
- $1 million to improve business and labor involvement in vocational education programs.

In addition to these new initiatives, existing programs will be enhanced and redirected. The state's CWETA program has proved highly successful over the past two years. Building from instructional resources of the community colleges, CWETA trains companies' existing staffs for higher skilled jobs, thereby opening up entry-level jobs for the unemployed. CWETA also provides training for these entry jobs. Currently, CWETA trains more than 4,000 persons per year.

The CWETA program is just one of the ways in which California is recognizing the changing structure of the world economy brought about by high technology. Last year, a Commission on Industrial Innovation was established, composed of prominent business, labor, and academic leaders. This commission will point the state toward some of the changes to be made in adapting to a more technologically advanced economy.

New Partnerships Needed

All of these initiatives are based upon a central tenet—California's employment needs can be met only through a partnership of government, industry, and labor. Only in this way can the skills needed for tomorrow's jobs be developed. Ultimately, it must be through this investment in our human capital that states find solutions to today's human resources problems.

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COLORADO STRATEGIES FOR RESPONDING TO REDUCED FUNDING

Many Factors Limit Scope of State-Initiated Changes

To date, Colorado actions to respond to federal block grant initiatives have been limited by the large budget cuts incorporated into the block grants, the short time frame allowed for implementation of the block grants, the generally restrictive nature of the block grants, and the large budget cuts in related categorical grant programs.

The state, however, has taken advantage of reduced administrative requirements such as: simplified application procedures, limited planning requirements, and reduced nonfinancial reporting. In addition, certain initiatives currently are under consideration: reduction of state licensing and regulatory requirements; development of needs analyses to equitably distribute more limited resources; and increased local flexibility over discretionary services.

Broader state/local issues under discussion by the Colorado Commission on State and Local Government Finance and other forums range from state assumption of income maintenance and social services programs to block granting certain funds directly to local governments.

Creative Responses to Funding Reductions

In reality, the block grants, while providing some reduction in administrative requirements, have acted primarily as a mechanism for reducing funding to state and local governments. Accordingly, Colorado's primary response has been in developing creative responses to funding reductions in order to preserve critical services to the most needy and disabled populations in the State. Those responses include the following:

- AFDC—the state moved to adopt the rateable reduction method of calculating AFDC benefits. This action, coupled with increasing the state's need standard, was used to maintain a work incentive in the AFDC program. In addition, child care services for AFDC recipients formerly funded under Title XX became an income disregard under AFDC. This action shifted a portion of the day care program from reduced Title XX funding to open-ended AFDC funding.
- Homemaker Services—a Medicaid waiver has been requested which would allow homemaker services to the elderly and disabled to be funded under Medicaid home health care provisions. This initiative will further reduce Title XX requirements while maintaining services to clients who otherwise might require more costly nursing home care.
- Medically Needy Program—the Governor has requested the addition of a Medically Needy program through Medicaid as a means of refinancing and providing additional services to the Medically Indigent population in Colorado. The program would provide essential low-cost services to a target population of mothers, children, and elderly who fall just above the Medicaid income eligibility criteria.
- Other Medicaid Initiatives—Medicaid waivers currently are being requested which would allow home and community-based services to be provided to the mentally ill and mentally disabled who otherwise would require nursing facility care.

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CONNECTICUT NEGOTIATED APPROACH TO THE ALLOCATION OF FFY 1983 SOCIAL SERVICES BLOCK GRANT FUNDS

Need for Innovative Allocation and Priority-Setting Techniques

On March 26, 1981, Governor William A. O'Neill established an Interagency Task Force on Block Grants. The task force was asked to recommend methods of administering the new federal block grants and also to explore innovative allocation and priority-setting techniques. The task force recommended that a negotiated process be used for block grants involving multiple state agencies. Because of its comlexity, flexibility, and scope, the Social Services Block Grant (SSBG) (involving fourteen state agencies and a host of municipal and private human service agencies) was singled out as particularly appropriate for a test of this negotiated approach.

The task force's recommendation was largely due to familiarity with the Negotiated Investment Strategy (NIS) developed by the Charles F. Kettering Foundation to implement urban policy. The NIS concept involves direct negotiation among federal, state, and local teams regarding investment decisions and regulatory actions by each to serve the needs of a particular city. The process is supervised by an impartial mediator and results in a written agreement. The foundation's NIS experiments in the cities of St. Paul, Columbus, and Gary dealt successfully with a wide array of complex issues and a wide array of interested agencies and parties, including the three levels of government and the private sector.

Although the NIS focused on urban policy implementation and on individual cities, the techniques involved are applicable to a wider range of intra- and inter-governmental issues. Concurrent with Connecticut's interest, the Kettering Foundation also became interested in adapting the negotiation techniques developed through its NIS experience to a broader variety of subject matter. The foundation explicitly recognized block grant implementation as a potential application and thus was extremely receptive when the Connecticut Office of Policy and Managemet (OPM) approached it for help in the design and imlementation of a potential negotiated allocation of Connecticut's Social Services Block Grant for FFY 1983.

Negotiated Investment Strategy Goals and Objectives

The goal of the negotiated process, if undertaken, would be to improve the techniques of intergovernmental decisionmaking. The objectives would include design and testing of an innovative approach for allocation of limited block grant money which would:

- demonstrate the ability of state government to make effective use of the authority to the states and provide a model process which can be replicated by other states for a variety of purposes;
- provide an opportunity to place an array of human service delivery issues on the table and obtain agreement on the relative importance of each;

- provide an opportunity to place individual agency program requests in the context of overall needs and subject those requests to scrutiny by peer agencies or claimants;
- permit those claimants to see and understand all of the other claims on the same limited funding;
- develop a block grant allocation process which permits all or most of the funding claimants to agree to the result; and
- develop a more effective allocation of block grant funding than can be achieved through more conventional procedures. "Effectiveness" in this case must be judged in terms of the amount of service to be provided, the extent to which that service is consistent with the needs which the participants identify to be the most important, and the level of consensus achieved through the negotiating process.

Design and Product of the Negotiated Allocation Process

Design of the negotiated process for the SSBG is being explored. The description which follows is preliminary, pending further design work by OPM and the Kettering Foundation and pending selection of and input by the mediator, if the decision is made to proceed. The participants in the negotiations also would have an opportunity to modify and approve the procedures.

The product of the negotiation, at least the first time, would be the executive branch's plan for allocation of the SSBG funding for FFY 1983. A broader goal would increase the complexity beyond feasibility in the limited time available. However, to achieve the objective of a "more effective" allocation, broad policies would have to be agreed upon, priorities would have to be set, and the relationship of block grant to other funding sources would have to be considered in the negotiations.

Proposed Implementation Steps

Five sequential steps would be taken to implement the negotiated approach:

- affected queries would be identified and determination made of how each would be included in the negotiations, including state, local, and private agencies; ideally, no party to the negotiation should be in a position to contravene it; no party with the ability to contravene it would be outside the negotiation;
- preparation for negotiation would take place and would include important tasks as follows:
  - selection of a mediator; impartial mediation is a critical element of the process, and early availability is desirable to help structure the negotiations;

  - organization of private and municipal representation; since it would be unwieldy for every potential claimant to be represented individually, steps would be taken by municipal and private service providers to select representatives to serve, protect, defend, and negotiate their interests;
  - development of proposed ground rules; the scope of the block grant and range of participants require much preplanning to assure that the process will not become unwieldy; an important element is the design of a tiered process assuring orderly sequence and reducing the elements for discussion at any given time to a reasonable scale; and
  - provision of training sessions; the Kettering Foundation would conduct training sessions for the participants to improve the skills required for successful negotiation.
- initial public hearings would be held;
- draft plan would be prepared; the planning sequence and plan content could include the following, but could develop differently as negotiations proceed:
- — agreement on ground rules, philosophical base, data base, objectives and priorities;
  - determination of appropriate state agency, private, local government percentages of the available funding;
  - determination of funding for each state agency; and
  - development of criteria for determining how much money each private and local grantee will receive (and who will decide); and
- public hearing and legislative review would take place.

Conclusion

The easiest approach to allocation of the SSBG would be to accommodate the block grant as closely as possible to past practice. Connecticut instead proposes to use the block grant as an opportunity to reassess its position, establish its own priorities, actively involve a grassroots array of claimants, and explore the possibility of new modes of intergovernmental decisionmaking.

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DELAWARE CITIZEN PARITICIPATION IN DECISONMAKING

Four Citizen Committees Established to Advise on Service Priorities

Governor du Pont has given the Department of Health and Social Services responsibility for planning and implementing four block grants: Alcoholism, Drug Abuse and Mental Health; Social Services; Maternal and Child Health; and Preventive Health Services. Directors of divisions who plan and/or administer the block grants (Public Health; Mental Health; and Planning, Research and Evaluation) are establishing three block grant review committees, composed entirely of citizens, to provide community participation and involvement in the block grant process. The committees will advise the divisions on service priorities and funding policies for the block grants in a timely manner in order to utilize committee recommendations in preparing the FFY 1983 block grant plan and application. The committees also will advise on any significant changes during the year that may be necessitated by federal funding changes, and will monitor program outcomes and results.

Committees' Membership

Committees will be comprised entirely of community members—not of state/private agency staff with which the department contracts. There will be broad statewide representation.

Staff Support

Divisions of state/private agencies will provide staff support to committees and division directors will serve as "ex-officio" members. The staff will provide at the committees' request:

- background and follow-up information and materials;
- suggestions and alternatives;
- logistics information;
- report drafts; and
- assistance in preparing a schedule and work plan.

Committee Responsibilities

The committees are charged with seven major responsibilities:

- to gain knowledge and understanding of:
  - division-operated programs, with particular emphasis on those relevant to block grants;
  - federal criteria and funding for block grant programs;
  - FFY 1982 block grant-funded services (either funded directly or through purchase-of-service), both state- and federally-mandated; and
  - FFY 1982 block grant allocation.

- to establish priorities and criteria and make recommendations for service delivery in the state;
- to recommend overall policies on the issue of contractual or direct service delivery of specific services;
- to recommend what percentage of available block grant funds should be spent on various priority services areas; (not to make specific allocations, but to recommend policies for making allocations and for "carrying over" funds to help maintain services in subsequent years;
- to solicit, review, and consider public comments (by attending public and legislative hearings on block grants) prior to making its recommendations;
- to review reports on the outcome of block grant programs throughout the year and to advise their respective division directors of any necessary major changes.

Through the work of these committees, the State of Delaware expects to receive valuable community perspective and insight that will guide the decisionmaking process under block grants.

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FLORIDA HEALTH CARE POLICY DEVELOPMENT

Policy Capabilities

For the past fifteen years, state governments have made major strides in developing the institutional capacity to effectively identify problems, set priorities, and implement responsive and innovative programs. The policy implications of the Reagan Administration's "New Federalism" are built on the reality of the states' increased ability to plan, manage, and allocate resources that meet the unique needs of our citizens. For state governments, the question is not whether the institutional capacity to accept more policy responsibility exists, but whether states have the fiscal capacity to do so. Honest reevaluation of all programs and creative redesign of current efforts is essential. In the health area, the challenge is to maximize the programmatic opportunities now available, in order to craft a more unified cost-efficient and effective health care system targeted on those most in need.

Health Care Is Not Effective

The health care system presently supported by the public sector needs improvement. In most states, Medicaid represents the largest financial commitment to health care. Medicaid generally has been focused on high cost "sickness care" with few opportunities to ensure any continuum of care designed to maintain the health of our low-income population. Added to Medicaid, but generally poorly linked, are an assortment of large and small federal grant-in-aid programs, state-funded public health efforts and locally-supported services. The result is a score of programs that have one thing in common—they fund some care unnecessarily, while leaving gaps large enough to miss significant numbers of high-risk individuals and families. The long-range ramifications of the status quo are unacceptable from the perspective of both the long-term health of the community-at-large and the people in need of critical services.

Florida Analysis of Health Care Financing Impact

Florida has long recognized that these problems existed. Unfortunately, due to the speed with which the state has had to respond to the reconciliation actions, combined with the continued uncertainty over the specifics of funding levels and program changes incorporated in them, Florida is in risk of missing the chance to make some needed changes.

Since February 1981, when the federal proposals first were announced, the Office of the Governor has been working closely with the Department of Health and Rehabilitative Services (DHRS) in order to fully understand and act upon these changes. State analysis has focused on identifying both the policy implications and the fiscal liabilities, the approach being that policy decisions drive the state "budget reconciliation". The process has underscored a long-range, comprehensive analysis of choices. In addition, Florida fully expects this to be an annual serialization. During the past six months, this exercise often has appeared to be like shooting at a moving target. It now is clear that state background work has provided Florida with an essential head start as the implementation process for block grants begins to settle down.

In the Spring of 1981, the state analysis was geared toward identifying those aspects of the proposal that were totally unacceptable and which would require working with the state congressional delegation to improve. Based upon solid analysis prepared by the DHRS, the Governor publicly raised strong objection to the proposed "cap" on Medicaid. Work with other states and national groups was successful in eliminating the "cap", the results of which take on even larger proportions as Florida continues to explore the programmatic modifications incoroporated in Medicaid.

Since March 1981, Florida has produced four reports that have attempted to identify and refine the potential impact on the state of the Economic Recovery Program. The last in this series was published in August and is based on the final authorized funding levels for federal grant-in-aid programs included in the Omnibus Reconciliation Act. The majority of these programs require further action through Congressional appropriations bills before actual funding levels for FFY 1982 are known (with the exception of entitlement programs).

Following final passage of the Omnibus Reconciliation Act in August, policy analysis efforts moved into high gear. On August 24, the DHRS and other state agencies submitted an Issue Overview Report to the Governor. The report provided:

- data on critical federal reductions and revisions in policy that would have an immediate effect on the state and require a decision by the Governor;
- identification of issues and policy opoprtunities that would need further analysis and an eventual decision by the Governor; and
- information regarding block grant options and recommended action to be taken by state administration.

Criteria Set for Policy and Budget Decisions

In order to provide agencies with further direction in analyzing specific issues for the Governor, the following questions were developed:

- What opportunities are available for improving the administration and delivery of services due to the a) merging of programs into block grants, and b) added flexibility in existing federal categorical and entitlement programs? (Specifically, how will the state be able to direct federal funds to state priority needs?)
- What critical services might be cut back without significant redirection of existing revenues?
- What organizational, administrative, and intergovernmental issues are inherent in the block grants and revised entitlement programs?
- What options are available under the Act for programs not included in block grants? and
- What would be the implications of:
    - absorbing the federal reductions with no additional state resources;
    - cutting back/redirecting state general revenue programs to provide relief in high priority programs impacted by the federal funding cutbacks; and
    - delaying or phasing in implementation of new and improved programs included in the state's FY 1981-82 appropriation bill?

Long-range Policy Implications

Based on the analysis to date, the state is actively exploring opportunities to coordinate (through a centralized uniform delivery system at the local level) the provision of health services to low-income individuals and families. The options in the Medicaid revisions, to provide case management services and provide home- and community-based services to avoid institutionalization, encourage prepaid health delivery mechanisms and delete restrictive requirements for medically-indigent programs. This strongly suggests that Medicaid can provide a continuum of services supported by Maternal and Child Health, block grants, and related state/local resources for low-income and high-rise populations.

The changes included in the Omnibus Reconciliation Act have required Florida to take off program hats and look at ways to more effectively link Medicaid and health services programs. The state is optimistic about the long-range possibilities but remains concerned about the appropriate role of the federal government.

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HAWAII INTEGRATION OF BLOCK GRANT IMPLEMENTATION INTO STATE BUDGETING SYSTEM

The Hawaii Department of Budget and Finance has been directed by the Governor to evaluate the possibility of integrating the block grant process with the state budgeting system. It is anticipated that such an integration will serve to ensure that adequate state resources will be budgeted in critical program areas which have been negatively impacted by block grant implementation. It also is intended that such a system will foster increased coordination between the administrative agencies involved in administering the various block grants as well as categorical grants.

A major obstacle in achieving the proposed system is the timetable difference between the state budget preparation cycle and the federal block grant implementation process. This concern, as well as others, must be addressed appropriately before policies can be issued.

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IDAHO NEW APPROACH TO BUDGET PROCESS

Idaho has made wholesale revisions in its approach to setting the state budget and has integrated the budget hearing process into the new approach.

A cabinet retreat was held in May 1981 at which department directors were asked to assign each of the more than 200 budgeted programs in the state to one of four categories: contract, expand, maintenance, or adjusted maintenance. After some massaging in the budget office, these decisions were formally communicated to departments by the Governor in the form of budget targets.

In early September (when department budgets are submitted), state officials reviewed the budget decisionmaking process with the idea of involving the cabinet and general public by holding budget hearings. The concept received mixed reactions as some cabinet members anticipated that the hearings would attract only negative comment on high taxes and big government and little in the way of constructive suggestions. Generally, however, it was felt that the hearings would serve to be productive.

Two approaches were examined in deciding the manner in which the hearings would be held: a) holding a series of hearings on different topics, and b) holding a series of general topic hearings in different geographical areas of the state. Since Idaho is a big state with a small population, it was decided that eight budget hearings would be held in various regions during the Month of September.

Publicity for the hearings was handled through a variety of means. In addition to normal press releases on the subject, the Governor provided oral material for the state's audio service (radio stations key into this service for their news programs) and wrote a column—"Scene from the Statehouse"—for the state's weekly newspapers. Also, departments were asked to work through their regional and local offices to make sure that interested people were informed of the hearings. Special interest groups were contacted directly.

Meetings were conducted by the state budget director and members of the budget staff attended on a rotation basis to provide technical support as well as to derive benefit from hearing public sentiment. The meetings were tape-recorded for the record.

The budget hearings were used as the central theme for the Governor's budget message which he delivered on prime-time television prior to the beginning of the legislative session in December. The message received excellent coverage and contained statistics and quotes garnered from the budget hearings, forming the framework for the budget process for the legislature.

In summary, Idaho has learned a lot about the potential benefit of conducting budget hearings, both in terms of substantively impacting the executive budget and of gaining public acceptance of the Governor's recommendations. The hearings also has provided the state with a stronger budget message and has been useful in advancing the Governor's message in the legislature.

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ILLINOIS CITIZEN TASK FORCE ON BLOCK GRANT IMPLEMENTATION

Governor Thompson has created a twenty-member citizen task force to oversee the development of state agency management of the block grants in Illinois. The task force has been meeting since December 1981 and will report to the Governor in October 1982 after it has held public hearings on its report. The goals of the task force are to:

- develop a comprehensive priority framework for human services delivered and funded by the state including specific recommendations relevant to block grant allocation;
- develop guidelines for the creation of new funding mechanisms, regulations, and rules to govern grants and contracts to local service providers under the block grants; and
- recommend organization changes at the state and local levels that would facilitate the delivery of services under block grants.

The Governor's office is staffing the task force and has established inter-agency working groups to assist in the detailed and technical work.

ILLINOIS PUBLIC AGENCY-PRIVATE GIVING: SUMMIT CONFERENCE ON HUMAN RESOURCES

Governor Thompson's office is preparing for a high-level summit conference which will bring together state agency directors, regional health and human service directors, and foundation directors to develop a better understanding of the agenda for the eighties. The Governor has recognized that New Federalism, the reduction of available public resources, and the demands of the public for reduced government spending call for new initiatives to bring together organizations which have been sharing responsibilities without sharing communications.

The purpose of the conference is to begin to open communications, and to sketch a map of an agenda process which recognizes the related roles of the public-private giving and services system. With a fundamental change in the system it is vital that private givers and foundations understand state priorities and that the state not duplicate or overlap the private philanthropy system. The first of these meetings will be held in the late spring and will be limited to about fifty persons.

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INDIANA BLOCK GRANT MANAGEMENT

In June 1981, Governor Robert D. Orr created a Block Grant Policy Committee and designated the Director of the State Planning Services Agency as the state's block grant coordinator. The Policy Committee was formed to include the leadership from the General Assembly to insure that maximum legislative input was achieved. In addition to the Governor and Lieutenant Governor, the Policy Committee is comprised of the President Pro Tem of the Senate, Senate Finance Committee staff persons, the Speaker of the House of Representatives, the Chairman of the House Ways and Means Committee, the Director of the State Budget Agency, the Director of the Indiana Washington Office, the Director of the State Planning Services Agency, and all of the Governor's executive and administrative assistants. It was the task of this twenty-person committee to advise the Governor on immediate decisions which had to be made and eventually to make recommendations to the Indiana General Assembly.

The Governor then created four block grant task forces. The Education Task Force was created along the lines of governing federal legislation; the other three were designed to achieve a balance of legislative, local governmental, private, and state agency interests. All task forces were staffed by the State Planning Services Agency which also functioned as a clearinghouse for state agencies. Each task force was comprised of the following:

- three legislative members (chosen in a bi-partisan manner);
- one representative each from city, town, and county governments; and
- three-four members from the general community.

The task forces held from five to seven public hearings through the state for the purposes of providing the public with information concerning block grants and receiving input from the public on their needs and expectations of block grants. Given the disturbing amount of misunderstanding and misinterpretation among the public, local officials, providers, and recipients, the task forces served to dispel misconceptions and explain the exact nature of the block grants. The system was organized to insure maximum public participation with wide news covereage and large-scale mailings to constitutents of the major programs. The very makeup of the task forces insured participation of all sectors affected by block grants.

In January 1982, all information compiled by the task forces was presented to the Governor, at which time the Policy Committee would make recommendations for action by the General Assembly. None of the task forces was willing to recommend major changes in the operation of the system or in determining service priorities until information regarding federal appropriation becomes more stabilized. Decisions for major reprioritization would continue through regular state budgetary processes with the benefit of the information provided by the task forces.

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IOWA FEDERAL BUDGET TASK FORCE STRUCTURE

The Federal Budget Task Force for the State of Iowa was established in February 1981. The task force consisted of the following individual task groups:

- Administration
- Human Resources
- Commerce and Industry
- K-12 and Vocational Education
- Post-Secondary Education
- Transportation
- Public Protection
- Natural Resources

The primary purpose for creation of this structure was to establish a dynamic mechanism that could rapidly assimilate and analyze information leading to assessment of fiscal impacts upon the state, identification of potentially critical areas, and recommendations for further action. The impact assessments appeared in a series of reports issued by the various task groups and the Federal Budget Task Force. The reports highlighted overall concerns in the areas of federal budget changes, tax reform, regulatory reform, and block grant development. This information was forwarded to decisionmakers within state government for further action.

The task force was well structured in that it could more effectively collect data from a variety of sources (including contacts in Washington and professional/trade associations) and disseminate information to individuals/groups throughout the state most affected by the various changes.

With the advent of block grants, two other work groups have been formed: a Block Grant Committee, consisting of directors of agencies responsible for administering block grants (this committee functions as a separately identifiable part of the Federal Budget Task Force) and a liaison group established by Governor Ray to interface with elected officials and the legislative branch of Iowa government.

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KANSAS BALANCED BASE BUDGET PROCESS

Among the administrative functions of state government, none is more important than the budgetary process. The budget is a plan of operation describing how, during the next fiscal year, the state will use its limited financial resources to meet the needs of the public. The plan must include an estimate of all proposed expenditures and the means of financing each disbursement from the state treasury.

The Governor's fiscal year 1983 budget has been prepared through a process that is new and substantially different for Kansas. Termed the balanced base budget process, the new system incorporates three key features not used previously—base agency allocations, tri-level expenditure proposals, and a program format.

Balanced Base Allocations

The first phase of the new budget process involves preparation and announcement of base budget financial allocations to be used by each agency in preparing its fiscal budget. The allocations formulated by the Governor are based on a series of issue papers prepared by agencies and preliminary revenue estimates for the ensuing fiscal year. Through the issue papers, agencies are able to provide the Governor with information on critical policy questions facing the state.

The base budget allocations have two essential features. First, they are balanced; i.e., when all agency base allocations are added together, the sum is balanced with the preliminary FY 1983 revenue estimate. Thus, by requiring agencies to submit budgets at the assigned allocation level, the budget is balanced from the outset.

Base allocations introduce revenue constraints at an early phase of the budget process and they minimize the submission of requests that simply cannot be accommodated within limited available state revenues. The timing of balanced based budget allocations have been useful particularly this past year, in that the problems presented by reduced federal funding for next year were confronted early and agencies were able to take steps to minimize the adverse effects on state-administered programs.

Second, allocations are made at the agency level; i.e., assigned to a given department to be apportioned to various units within its jurisdiction. Agency managers and governing boards then are responsible for spreading the base allocation among their programs, thereby making program adjustments that shift resources from low to high priorities.

Tri-level Expenditures Proposals

The second major feature of the new budget process is the submission by agencies of tri-level expenditure proposals reflecting alternative service levels within the base allocations. The proposals are referred to as A-, B-, and C-level budgets and are submitted in September. Each level reflects an allocation assigned early by the Governor and is intended to represent an internally consistent budget request. The B-level or expenditure proposal is of primary importance because it reflects the balanced budget allocations. The A-level represents a lesser amount and is intended to depict the agency's financial plans if it receives a reduced level of resources. The C-level is intended to reflect new or enhanced activities that could be undertaken given additional revenues.

This aspect of the new system affirms and reinforces the role of agency managers in assigning priorities among programs, i.e., reducing/eliminating/increasing as allocations afford. Also, the consequences of funding reductions/increases on agency programs are readily apparent to the Governor and budget decisionmakers.

Because the B-level is balanced for all of state government, each addition to an agency beyond this level must be offset with a corresponding reduction elsewhere. Hence, information contained in A-and C-levels, together with agency explanations of differences in performance at each level, provides necessary data in making budget decisions.

Program Budget Format

The third phase of the new budget process is the adoption of a program budget format, whereby the program—a collection of similar activities and services that are directed toward a defined goal and are managed by a single identifiable authority—is the primary budgetary unit. For each of its programs, an agency is asked to prepare an operating plan that includes a program description, a statement of intended areas of emphasis, and measurable objectives (purposes to be achieved and suggested performance indicators).

Program format fosters analysis of current program operations and areas of potential change, forces agencies to relate the activities to specific objectives, and enables decisionmakers to evaluate state programs in terms of costs, effectiveness, and performance on the basis of policy and program issues as opposed to the cost of individual elements of the program.

Budget Review and Approval

During September and October, the Divison of Budget reviews agency budget requests for technical accuracy and concurrence between agency proposals and the Governor's policy. Agency proposals are brought into balance with the revised estimate of total revenues, and detailed preliminary budget recommendations are developed for each program and agency.

During November and December, the Governor makes final decisions on the budget, taking into consideration updated revenue forecast, program plans and performance measures, adherence to policy guidelines, information contained in the tri-level budget submissions together with agency explanations of the differences in service, and information derived from the agency appeal process. The Governor's budget message, comprised of approximately twenty separate appropriation measures, is submitted to the joint session of the legislature for review and approval.

The new balanced base budget process is a financial plan that offers several advantages over previous budget systems in that it:

- provides for gubernatorial policy directives in the initial phases of the budget process;
- confronts inevitable financial resource constraints early in the process;
- provides a balance of revenues and expenditures and is reflective of both the Governor's and agency directors' priorities; and
- provides for better agency management and performance.

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KENTUCKY STATE-CONTROLLED COMMUNITY DEVELOPMENT BLOCK GRANT FUND DISTRIBUTION

In September 1980, Kentucky and Wisconsin were the only two states chosen for a HUD demonstration program. The purpose of the demonstration was to see if greater coordination with state programs could be accomplished if a state controlled the distribution of HUD Small Cities Community Development Block Grant (CDBG) funds. The Department of Community and Regional Development DCRD) was responsible for approximately $10.5 million and funded twenty-two jurisdictions.

The Reagan Administration has expanded the idea of the demonstration. Kentucky now receives the HUD Small Cities CDBG in its entirety. The new Office of Community Development will receive an allocation of $30.5 million which will allow the office to allocate approximately $15 million in the next funding cycle (difference is due to previous multi-year commitments).

Kentucky's success with the demonstration on both the federal and local levels has put the state in the vanguard of the block grant wave. Information requests by phone and mail have been answered from more than thirty-five states. Kentucky has hosted two block grant seminars for interested parties from sister states. Staff have been asked to testify before the House Subcommittee concerning the state's role and numerous invitations have been received to take part in national panels. The state experience has been the subject of considerable research and reporting, and a case study has been done by the Harvard Business School.

Kentucky believes its success has been to two distinct program features: (1) a training seminar involving all potential applicants; and (2) involvement and consensus of local practitioners in the design phase prior to issuing a final draft.

HUD's office in Kentucky, which previously administered the program, estimated that the state-administered program saved taxpayers almost $1 million, and, after the winners were announced, 91 percent of the applicants agreed that the state-administered program was more fair than its federal counterpart.

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LOUISIANA ALTERNATIVES TO INSTITUTIONAL CARE

In the face of federal funding reductions brought about by the Omnibus Reconciliation Act of 1981, Louisiana resolved to continue its current level of health and social services to its client population to the maximum extent possible. To achieve this goal, the state determined that it must provide essential services in a more efficient and economical manner.

The act liberalized the Title XIX, Medicaid Program to allow payment for social services in a home- or community-based program when such services are alternatives to institutional care. Concomitantly, the Act reduced the available federal funding for Title XX Social Services which provided resources for Louisiana's community-based programs such as adult day care, homemaker and day developmental centers. These programs were effective in maintaining individuals in their own homes or in other less restrictive and less expensive settings than a nursing home.

As a result of the reduction in the Title XX Social Services Block Grant, it would have been necessary for the State to reduce services to persons receiving care in their homes or community-based programs. These persons then would have required nursing home care which is a more expensive option.

In determining a strategy to maximize resources, Louisiana decided to request a waiver in accordance with Section 2176 of PL 97-35 to provide coverage for adult day health services, homemaker services, and habilitation services under the Louisiana Medicaid Program. The individuals slated to receive these services otherwise would require Skilled Nursing Facility or Intermediate Care Facility Services.

By planning and managing the mixture of block grants and categorical programs, it is anticipated that Louisiana will be able to continue funding both the most essential long-term care services and community-based alternative services.

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MAINE WELFARE EMPLOYMENT APPROACHES

Maine has undertaken three complementary efforts within the past year to address welfare employment issues:

- In December 1980, the Commissioner of Human Services, in cooperation with the Commissioner of Labor and Commissioner of Educational and Cultural Services, convened a statewide Work Opporunities Committee to examine employment, education, and training opportunities for Aid to Families with Dependent Children (AFDC) recipients.
- In June 1981, the Maine State Legislature enacted Public Law 1981, Chapter 512—The Job Opportunities Act—which establishes and coordinates employment, education, and training opportunities for AFDC recipients.
- In October 1981, Governor Joseph E. Brennan decided to participate in the national Work Incentive Demonstration Program, authorized by Congress in the Omnibus Budget Reconciliation Act of August 1981.

Work Opportunities Committee

The Work Opportunities Committee is comprised of two-dozen participants representing a wide range of interests. The work of the committee is extensive in scope: to analyze Maine's income maintenance policies; to examine the effectiveness of the WIN and CETA and vocational educational programs in helping AFDC recipients become employed; and to study possibilities for creating jobs through economic development policies and AFDC grant diversion.

The committee's final report—"Women, Work and Welfare"—includes over forty recommendations for increasing and improving employment and training opportunities for AFDC recipients.

Job Opportunities Act

The Job Opportunities Act requires Maine to coordinate and make greater use of "available resources and institutions to provide education, training and job opportunities to qualified and eligible recipients of the Aid to Families with Dependent Children Program with the goal of enabling them to become self-sufficient and to eliminate their dependence on public assistance".

The act creates an AFDC Coordinating Committee, comprised of the Commissioners of Human Services, Labor, and Educational and Cultural Services. Several public agencies are required under the act to work with and cooperate with the committee: the State Development Office, the Maine Development Foundation, the Maine Guarantee Authority, the University of Maine, and the vocational technical institutes.

The act also creates an Advisory Council to the AFDC Coordinating Committee and is comprised of AFDC recipients, employers and representatives of organized labor, the Maine Commission for Women, and at least one organization experienced in addressing needs of low-income women. The council consists primarily of people who participated in the Work Opportunities Committee.

Finally, the act establishes a program under the jurisdiction of the State Apprenticeship and Training Council to develop apprenticeship agreements exclusively for the training and education of AFDC recipients.

Demonstration Program

The Work Opportunities Committee and the Job Opportunities Act set the stage for Governor Brennan's decision to participate in the national Work Incentive program, referred to in Maine as the Welfare Employment, Education and Training (WEET) program. WEET replaces the former WIN program throughout the state, and has established the following four goals:

- to streamline the management of the state's work program for AFDC applicants/recipients; in Maine, as elsewhere in the states, the dual administration of the WIN program by the Departments of Labor and Human Services has not worked very well; hence, all WEET staff will work for the Department of Human Services, a factor seen as essential more than ever given the drastic cut in federal WIN funds enacted by Congress in December 1980;
- to experiment with new approaches for delivering services to AFDC applicants/recipients; because staffing has been reduced by over half, AFDC applicants/recipients will need to be taught to be self-sufficient, WEET staff will be required to function more as brokers of service than as direct providers, and there will have to be much closer ties between income maintenance and WEET staff;
- to work closely with other agencies and interest groups that are involved in employment, education, and training needs of low-income citizens, in order to develop essential opportunities and resources for these citizens; and
- to make use of AFDC grant diversion to develop private sector job opportunities for AFDC applicants/recipients.

The Future

It is impossible to determine precisely what steps the federal government will take in the coming months. However, it would seem that there will be some type of AFDC work program. No matter what shape such a program will take, Maine has decided that it must, through the WEET, put into place the basic design of an approach that will be most responsive to Maine citizens.

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MARYLAND APPROACH TO FUNDING FORMER DIRECT FEDERAL-LOCAL GRANT PROGRAMS SUBSUMED IN BLOCK GRANTS

Other than the constantly shifting estimate of block grant allotments and composition, the most difficult issue has revolved around the treatment of grantees who formerly received funds from federally funded programs that since have been incorporated into the blocks. Part of the problem has been clarifying the nature of the grant and identifying grant recipients. Of particular concern to grantees has been whether the state would absorb some of the cuts and their fear that:

- a major source of their revenue now would be funneled through the state;
- the state, to offset cuts, at best would take an administrative slice and at worst would divert a substantial share of local government's entitlement; and
- the state would add new strings to funds passed through.

The Governor decided that Maryland initially would assume management responsibility only in areas where the state had long-standing program responsibility. In these areas, the formerly federal-local direct grants represented relatively small shares of the blocks—generally under 15 percent and not more than 30 percent. The Governor further decided that, at least in the first year, the state and other grantees would share the cut in proportion to grant amounts of programs folded into the blocks. Furthermore, the state neither would take administrative cost nor add administrative strings other than those necessary for complying with state law and/or meeting new responsibilities under the block grant.

The Governor and his staff conducted an intensive series of meetings with local governments and their representatives to communicate the state's sensitivity to their problems, to communicate proposed action, and to assuage their fears. The efforts appear to have been successful.

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MASSACHUSETTS BLOCK GRANT IMPLEMENTATION

In FY 1982, Massachusetts labored under severe time contraints to begin implementation of the block grant programs by October. Therefore, comment from consumer organizations, providers, and local government was limited. However, public hearings were held and notices placed in newspapers to inform the citizenry that Massachusetts was submitting the four human services block grant applications to the U. S. Department of Health and Human Services.

For FY 1982, it was proposed that the appropriated funds be allocated in proportion to FY 1981 funding levels. In formulating this method of allocating funds, the state made a commitment to maintain as many currently existing services as was feasible within the available funds. The agencies were responsible for reducing their expenditure levels. This "bottoms-up" approach was favored by the Executive Office of Human Services (EOHS), because the agency program managers knew best the services provided.

In December, an Advisory Task Force on Block Grant Implementation, consisting of twenty-three members of local governments, consumers, and providers, was appointed by the Secretary of Human Services to prepare recommendations for FY 1983. The Task Force will meet monthly and consider issues such as transferability, quality of services, long-term planning, needs assessment, resources analysis, and priority-setting. Task force subcommittees have been meeting regularly since December.

In additon, EOHS has established a timetable for development of block grant applications which must be submitted to the federal government:

February 1:	Administering agencies will submit proposed criteria for needs assessment, management, and performance evaluation to the Secretary;
mid-February	The Secretary will conduct hearings on the draft criteria;
March 1	Administering agencies will apply standards and guidelines, develop proposed applications (including spending plans), and submit them to the Secretary;
May 1	The Secretary will conduct hearings on applications and draft spending plans; and
June 1	The Governor will submit final applications to the State Legislature for inclusion in the state budget.

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MICHIGAN PUBIC HEARINGS

The Governor's Human Services Cabinet is undertaking a series of six statewide public hearings on the human services block grants which will allow full public participation in the entire range of programs affected by the block grants. This information will be channeled into the departments responsible for each block grant as well as into the legislative appropriation process. Additionally, at least two of the administering agencies will be holding special hearings for their own block grant which will help them make the necessary decisions required relating to program modifications and service delivery. One department is conducting a statewide survey of non-public and public schools and intermediate school districts to solicit their input in setting program priorities for the coming year.

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MINNESOTA BLOCK GRANT ACTONS

Prior to final Congressional action, the 1981 Minnesota Legislature enacted legislation which required agencies to continue funding services and organizations which previously had received federal funds. Each program or organization thus was guaranteed fiscal support, subject to a proportional reduction. This allowed programs to plan and continue to operate during this period of change.

A task force composed of commissioners of agencies most affected by the federal budget changes was appointed by Governor Quie. This group has continued to monitor federal changes and their effect on state policies and programs, and has kept the Governor and the Legislature informed through the production of two written reports. Each commissioner also has appointed an intergovernmental task force designed to involve citizens and local government officials in the decisions which are upcoming regarding the administration of the block grants.

Minnesota has only minor changes to make in state law to accommodate the block grants. In the social services area, existing law provides for distribution of federal funds on a formula basis to counties; in the health area, similar legislation exists which could be used. Each agency is pursuing plans with the legislature to use federal block funds which are appropriate to their programs in Minnesota's service delivery system which relies upon local units of government in many of the block grant program areas.

Changes in programs, shifting of resources to various client groups, and the utilization of new service providers are items for discussion in the future for agency heads, the intergovernmental advisory groups, and the legislature. Dramatic changes are not anticipated in the short term.

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MISSISSIPPI MULTI-AGENCY COORDINATION

With the advent of block grants, the reduction of federal funds, and decreasing state monies, Governor Winter recognized the need for coordinating the efforts of the various agencies involved in providing programs/services in the area of health and human services. It was realized that, with the limited amount of time available for preparation on the part of the state to deal with these issues and the number and variety of the categoricals being blocked, very little uniformity could exist in the planning and implementation processes used by the agencies involved.

Interexecutive Task Force Will Coordinate Block Grant Implementation

The Governor established a Block Grant Task Force composed of directors of agencies administering the blocks, as follows:

- Mississippi State Board of Health
  Maternal and Child Health and Preventive Health blocks
- Department of Public Welfare
  Social Services block
- Department of Mental Health
  Alcohol, Drug Abuse and Mental Health block and
- Federal-State Programs
  Community Services and Home Energy Assistance blocks

The task force was charged with the responsibility of addressing areas of common concern and arriving at coordinated solutions. Initially, the task force directed its attention to operational and mechanical issues which affected the entire group. For example, a series of public hearings for the purpose of obtaining citizen input were planned and coordinated by the group. Also, joint resolutions were adopted which provided for a uniform format for state plans, fiscal audit requirements, joint eligibility criteria, and state definitions and determinations to replace those formerly mandated by the federal funding agencies.

The task force now is addressing opportunities for interagency coordination and cross-cutting of programs and services for the purpose of eliminating duplicative services, filling in gaps in services, and better allocating available resources. It is anticipated that their efforts will result in a coordinated cross program planning and implementation process involving the block grants and related categorical programs.

Advisory Board Created

The Governor also appointed a Health and Human Services Block Grant Advisory Board of citizens to obtain insight from concerned sources outside of the state governmental structure. The board is composed of sixteen representatives from many concerned groups involved in the area of health and human services, as well as from local governments and local community action agencies. The board is charged with the reponsibility of advising on the development of program priorities and policy, assisting in providing information and education to the public, and adding input in presenting final state plans to the Governor and the legislature.

As mentioned previously, in order to obtain public input on the development of guidelines for administering block grant funds, the Governor's Office coordinated a series of public hearings which were held in each Congressional district in the state. Individual hearings were conducted for each of the blocks which provided opportunity for educating the public on the mechanics of each block as well as for receiving comments. The hearings were well attended and the agency directors received significant input from the participants. Following these hearings, the state plans were revised and finalized for presentation to the Governor and legislature.

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MISSOURI BLOCK GRANT IMPLEMENTATION

An important step in Missouri's implementation of the block grants has been close involvement of the General Assembly, the public, and groups representing providers and clients. The legislature established a "Block Grant Oversight Committee", chaired by the Director of the the Department of Social Services and composed of five members of each House and the Director of the Division of Family Services. The committee had oversight on the use of all block grants received by the Department of Social Services (the Health, Social Services, and Community Services Block Grants). It met during the time the department was developing its budget requests for FY 1983, and made recommendations which were reflected in the Governor's budget proposals.

Both the Departments of Social Services and Mental Health pursued valuable efforts to ensure public awareness of and participation in the formation of block grant policy. The Department of Social Services held public meetings with local providers and advocacy groups in cities throughout Missouri, conveying information about the block grants and soliciting questions, comments, and suggestions. In addition, the department established a "Social Services Advisory Group" and a "Maternal and "Child Health Advisory Group", for consultation purposes during development of the FY 1983 budget requests. It also produced a block grants newsletter—Social Services Report—for distribution to the General Assembly, providers, local governments, and other interested groups.

The Department of Mental Health used its statewide network of advisory councils as the primary vehicle for information and public comment. The advisory councils were supplemented, however, by locally-organized public hearings in various key cities during the period when the department was preparing its FY 1983 budget requirements. Substantive issues included both the mental health allocation from the Social Services Block Grant and use of the Alcohol and Drug Abuse/Mental Health Block Grant.

The Department of Consumer Affairs, Regulation, and Licensing similarly established a twenty-member advisory council, composed of local government officials, to advise the Director of the Division of Community Development on the process and criteria for allocating funds from the Community Development Block Grant. For FY 1983, the Governor's budget recommendations included funds for a twelve-person staff for the CDBG program.

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MONTANA INCREASED STATE PARTICIPATION IN GENERAL ASSISTANCE PROGRAMS

When Montana began to see the outline of program changes that were in store for the AFDC and food stamp programs, officials began to evaluate the impact on Montana. It was determined early in the process that it was not realisitic to consider replacing these program reductions with equivalent state programs.

In Montana, the final base of services is provided by the County General Assistance Program. Prior to January 1, 1982, each county administered a welfare program and financed it with a special mill levy authorized by the county commissioners. If that mill levy reached 13.5 mills, any additional costs were reimbursed by the state. The majority of the counties levied less than 6 mills for welfare. Given the program changes in AFDC and food stamps, the state anticipated that there would be increases in county case loads. Therefore, in order to avoid higher mill levies, a method of increased state support had to be found. The final compromise worked out with the special session of the legislature contained three major elements:

1. The maximum required mill levy to be eligible for state support was reduced to 8 mills; from 8 to 13.5 mills, the state contributes half the cost.
2. Counties now are required to implement a "workfare" program in order to be eligible for state support.
3. The state gained authority to tighten up the rules to limit eligible county costs.

This program has several advantages. First, the base of services will continue to be available for the needy; second, the program is locally administered; and finally, increased state support will limit the impact on local taxpayers.

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NEBRASKA BLOCK GRANT MANAGEMENT

Advisory Council and Working Committees Appointed

In May 1981, Governor Thone appointed The Governor's Advisory Council on Block Grants to advise him on issues pertaining to federal block grants to states. Specifically, the council was to examine issues, obtain public input, explore options, and ultimately make recommendations to the Governor by September 1981. Eleven committees and subcommittees were formed (each focusing on a specific block grant or ancillary program):

Social Services Committee, Adult Services and
    Children and Family subcommittees
Health Care Committee, Medicaid subcommittee
Natural Resources and Energy Commmittee, Energy subcommittee
Preventative Health Care
Transportation Committee
Education Committee and
Development Committee.

By July, when congressional action on block grants was clearer, the committee structure changed in order to focus on the emerging block grants. Of significance was the addition of a separate Child and Maternal Health Block Grant, a separate Alcohol and Drug Abuse and Mental Health Block Grant, and a separate Community Services Block Grant.

On August 13, the President signed the Omnibus Reconciliation Act of 1981. The committees had clear guidance at this time to develop issues to be presented at public forum. Also, Governor Thone appointed an additional committee to address the implications of the Community Services Block Grant because this new block grant area did not lend itself readily to an existing committee structure. Eight public forums on block grants were held during September in key cities and were attended by approximately 1500 persons, 200 of whom offered public comment. Individuals were encouraged to submit written comments to the state. Using views expressed at public forums and their own research, the several committees submitted reports to the Governor's council, which in turn, presented its recommendations to Governor Thone.

Block Grant Resource Center Established

Governor Thone created a Block Grant Coordination and Planning Office that was to be a resource center for information regarding block grant legislation. The office responded to inquiries on issues from all areas of the state—private/public sectors, city/county/state governments, the legislature, and the general community. In addition, the office provided staff assistance for the Governor's Block Grant Advisory Council.

Advisory Commission on Intergovernmental Relations Created

In September 1981, Governor Thone, by Executive Order, created the Nebraska Advisory Commission on Intergovernmental Relations. The purpose of this commission was to develop policy recommendations on the distribution of federal block grant funds from the state to local government. The commission served as a forum for consultation between state and local officials and as a clearinghouse for information on intergovernmental relations. The commission was comprised of five each of the following: elected city officials, elected county officials, members of the legislature, members of the executive branch of state government, and representatives of the general community. Unless extended by Executive Order, the commission is scheduled to terminate July 1982.

Human Services Programs Coordinated

Governor Thone has recognized the important inter-relationships of state and local governments, particularly in the area of long-term planning and coordination necessary to best serve Nebraska's citizens in need. In December 1981, the Governor appointed an Administrative Coordinator for Human Services, thereby bringing under a single administration the following human services agencies: Department of Public Welfare, Department of Public Institutions, Department of Health, Department of Labor, and the Department of Veteran's Affairs.

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NEVADA USE OF EXISTING MECHANISMS TO IMPLEMENT BLOCK GRANTS

In Nevada, each apropriate state agency is responsible for working with cities, counties, and organizations that are interested in the particular block grant falling under that agency's jurisdiction. After the agency has gathered all necessary input, it submits initial fund allocation plans to the State Department of Administration for review and approval. In turn, the department submits the plan to the Interim Finance Committee for further public review and final approval. Throughout this multi-step procedure, all interested parties are provided with adequate opportunity for offering their input in the development of block grant fund allocation plans.

By implementing the block grant programs within existing administrative structure, Nevada is able to meet one of the principle objectives for this new program: reduce administrative overhead and delay, and more efficiently provide grant money to those people who truly need it.

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NEW HAMPSHIRE DEPARTMENT OF HEALTH AND WELFARE MANAGEMENT ACCOUNTABILITY SYSTEM

New Hampshire is taking bold management steps to increase accountability, program efficiency, and productivity in response to recent federal cuts and increased opportunities for state control. Governor Hugh J. Gallen is holding agency heads accountable for quarterly reporting of financial and personnel data, and progress towards goals and objectives.

The Department of Health and Welfare (DHW) has taken the lead in responding to the Governor's mandate because of its already developed Strategic Planning Process (see Governor's Guide to Block Grant Implementation, Council of State Planning Agencies and National Governors' Association, August 1981). Commissioner Edgar J. Helms has directed the development of a monthly manual management reporting system entitled "The Management Brief".

Elements of "The Management Brief"

The purpose of this management accountability system is to develop a relatively simple monthly report for the commissioner that can be used as the basis for regular supervisory sessions with major division heads. For comparison across division lines the "Brief" contains information in the following areas: personnel status, funds information, client/service data, and program/agency sub-unit activities.

The personnel report includes breakdowns, by specific unit for each agency, of positions authorized, vacant, and filled. These data are critical for top management to receive on a regular basis in order to evaluate the relationship between plans, resources, and outputs.

The monthly funds report breaks out federal, state, and other funding sources by amount appropriated, year-to-date expended, encumbered (obligated), and balance. It should be noted that the "Brief" differentiates financial accounting from fund accounting in order to provide useable management information. Fund accounting principles are used, measuring deviance from planned expenditures and/or obligations (encumbrances). The ability to plainly see the difference between "planned and actual" is important for management for supervision and evaluation purposes. This comparison, done on a monthly basis, makes it possible for managers to establish rates and compare them to projected rates and keep them out of serious "over or under expenditure" problems—a critical process in the current environment of uncertain and shrinking resources.

The client and services activities form contains unit and agency specific data on units of service, caseloads, institutional and discharges and readmissions, numbers of reported abuses, and other critical indicators of a unit's successful accomplishment of its goals and objectives.

Finally, each division and office prepares a monthly narrative discussing activities of special interest for that month. The narrative also serves as an exception report for division/office directors to notify and explain to the commissioner major deviations from goals and objectives outlined in their annual operational form.

All reports are printed in booklet form and used for several related purposes:

- as a tool for the commissioner and division directors in providing regular supervision of plan execution, program effectiveness, and fiscal control;
- as a basis for regular reporting to the executive and legislative branches of state government; and
- as an internal working document and important additional communication link within the department.

It is hoped that the "Brief" eventually will substitute for federal compliance reporting documents in various program areas.

A Management and Planning System

This system is an important management tool that conceptually lies between planning and supervision. The Strategic Planning and Budget Process, "The Management Brief", operational planning, and regular supervision all work together to enable the commissioner and division directors to measure performance and results. The entire management system produces information that communicates successes and problem areas to the Governor, state legislature, and general public.

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NEW JERSEY EXECUTIVE BRANCH ROLES IN BLOCK GRANT MANAGEMENT

Policy Role of the Governor's Office

The block grant programs have offered an opportunity for the Governor's Office of Planning and Management to assume a pivotal, coordinating, and policy role in managing the transition to block grants. Under the administration of Governor Kean, this office will continue to play a leadership role.

Office staff took the implementation initiative in July 1981 by organizing two inter-departmental meetings on block grants. Information was funneled through the staff to participating agencies, first as a result of seminars held during the National Governors' Association summer meeting, and then by communications with federal agencies.

In September, members of the Governor's staff met with officials of the three New Jersey departments involved in block grant implementation: Health, Human Services, and Community Affairs, as well as with the Department of the Treasury. Staff also reviewed department applications, drafted transmittal letters for the Governor's signature, and wrote appropriate press releases.

Major policy issues for block grant implementation were determined by Governor's staff as follows: selection of agencies to administer the block grants; transfer of funds between grants; and coordination of programs when two or three departments would share block grant administration responsibilities.

The Fiscal Management Role of the State Treasury

The New Jersey Treasury has played an important role in block grant implementation by complementing the responsibilities being carried out by Governor's staff. Heretofore, the transmittal of federal funds in the state had not required strong executive presence. Typically, federal funds had been handled by each state agency which negotiated directly with the federal government and provided necessary program initiation and review staff. Prior to the advent of block grants, Treasury recorded federal funds (mainly to estimate their effects upon the state budget) and controlled their expenditures. Prior to FFY 1982, Treasury's authority in resource allocation guidance was conservative.

Currently, with the FFY 1982 budget largely operating on a continuing resolution and with the constantly changing dollar figure, Treasury is allowing state officials to spend only 50 percent of their promised federal aid. If FFY 1982 funds are cut further, then state program reductions will exceed the figures with which the state is working. If, however, the appropriatons finally are made at continuing resolution level, or if they exceed those figures, then state agencies will have a "windfall" in the last quarters of the federal fiscal year.

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NEW MEXICO COORDINATION OF PUBLIC ADMINSITRATIVE AND PROGRAM RESPONSES TO BLOCK GRANT IMPLEMENTATION

New Mexico has developed a comprehensive method of coordinating the public, executive administration, and agency programmatic responses to the formation of block grants. Each of these will be addressed separately.

Public Meetings

Preceded by press releases to local newspapers, each of the state's seven planning districts held public meetings that were conducted by the Secretary of the Department of Finance and Adminsitration, the lead agency in coordinating the state's response to block grants. Public participation was substantial, and transcriptions of public commentary were made and broken out by block grant and geographical areas to use in developing programmatic responses.

Executive Administration

The Governor designated a Federal Funds Task Force to decide which block grant to administer and to comply with provisions set up by the Omnibus Reconciliation Act of 1981 in assuming control of the block grants.

This task force was comprised of key aides to the Governor, including the director of New Mexico's Washington Office and the Secretary of the Department of Finance and Administration (the state's counterpart to the Office of Management and Budget). The task force analyzed the Omnibus Reconciliation Act and information from responsible federal agencies to determine exactly what the state must do to apply for and assume control of block grants, as well as kept up with the continuous change in funding levels appropriated for each block grant.

Program Administration

Agencies with prior experience in categorical programs were designated to administer the same programs in their block grant form. A subtask force, chaired by the Deputy Secretary of the Department of Finance and Administration and composed of agency program directors, produced program plans and assurances necessary for completing the formal application to assume control of the block grants. The chairman served as the conduit for the Governor between programmatic people and the main task force.

Problems Encountered

Four main accomplishments were realized in the above-referenced operations:

- the public was polled as to the needs to be met by block grants;
- the Governor's Office was kept abreast of changing activities in Washington requiring state response;
- program plans for the block grants were designed by agencies with "hands on" experience; and
- coordination was provided by the Department of Finance and Administration, the one agency involved in all three operations, in order that a state response would incorporate the needs of the public, state government, and the federal government.

Planning for block grant implementation has been extremely difficult for New Mexico for the same reasons every other state has encountered: knowing that there is less money available and that it will decrease further, but not knowing how much or how soon.

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NEW YORK BLOCK GRANT IMPLEMENTATION ACTIONS

Conservative Approaches to Block Grant Implementation Necessitated by External Constraints

As of January 1982, New York has assumed responsibility for three block grants: Title XX Social Services, Home Energy Assistance, and Alcohol and Drug Abuse and Mental Health Services.

The general rules drawn from state experience have been that the "bold and innovative approaches" desired by the federal government have proven and will continue to prove difficult to implement in the short run for a variety of reasons:

- short lead time for planning and policy work;
- high degree of continued uncertainty as to future funding levels;
- continued mandates in the form of program regulations or, more often, legislative restrictions; and
- lack of clarity about the respective responsibility under audit of the federal, state, and local governments, particularly in light of differing versions of federal program intent from the points of view of Congress, federal administering agency, and Office of Management and Budget.

This is not to say that innovative approaches will not be attempted or that New York State does not possess the capacity to administer block grants. Rather, a difficult task has been rendered even more difficult as a result of the nature of the federal approach, particularly the short planning period involved and the likelihood of future effective funding reductions.

Block Grant Actions

In response to FFY 1982 needs the following actions have been taken to implement programs contained within the block grant legislation:

SSBG

The major source of funds for services to low-income persons under the jurisdiction of the state Department of Social Services (DSS) is Title XX. Accordingly, DSS has been designated block grant administator. Annual social service plans are no longer required by the federal government. Title XX funding under the block grant will follow previous patterns and will be allocated and distributed to the Local Social Service Districts (LSSDs) through the department's Consolidated Services Planning Process.

In part, this process requires LSSDs to prepare three-year needs assessments, plans to address identified needs, and measures to evaluate service impact. DSS reviews local plans for conformity with state policy and social services goals. The plans then form the base for fund allocation decision and program reviews.

Title XX funds are used to provide services (such as child foster and protective care, day care, adult protection, adoption) to low-income persons to enhance their quality of life and their opportunity to participate in the community. DSS will encourage maintenance of current local staff levels and priority funding of essential services.

Under the Omnibus Reconciliation Act and related regulations, the state is required to submit an annual program report and a biennial financial audit to the Department of Health and Human Services. The requirements will be accommodated as part of routine DSS review and evaluation activities that include regular on-site monitoring of local districts by DSS field staff. Additionally, local districts are required to provide measures of program impact when requesting Title XX funds.

Home Energy Assistance Block Grant

The Omnibus Reconciliation Act consolidates past energy assistance and home weatherization programs into the Home Energy Assistance Block Grant to be administered by the states.

Program benefits will be distributed through LSSDs under DSS supervision for AFDC home relief recipients and will be distributed directly for most SSI recipients. Outreach activities, particularly for eligible elderly and low-income households, will be assisted through the State Office for Aging (SOFA) network, community action agencies, and the Department of Labor (DOL).

Weatherization activities will be conducted by the Department of State through community action agencies. Energy emergency funds will be administered by counties for regional emergencies, and by DSS for mass emergencies.

The proposed distribution of New York's share (12.7 percent) of the $1.4 billion proposed federal appropriation for home energy assistance will be based upon previous years' funding data and needs assessment. Allocations to local districts for non-public assistance recipients will be based on their proportionate share of 1980-81 home energy assistance applications. Allocation methods for AFDC and home relief clients currently are under development.

Program evaluations will be conducted annually by DSS, SOFA, and the Department of State. The Omnibus Reconciliation Act also requires filing of annual program reports and financial audits.

Alcohol and Drug Abuse and Mental Health (ADAMHA) Block Grant

The Omnibus Reconciliation Act requires the state to maintain funding in proportion to FFY 1980 funding for drug abuse and alcohol programs and 1981 funding for mental health services levels. At the same time, however, the state's drug abuse and alcohol programs must each receive 35 percent of the ADAMHA funding. The Governor has assigned administrative responsibility for the ADAMHA grant to the Department of Mental Hygiene's Inter-Office Coordinating Council (IOCC). Program responsiblity will be shared by the Division of Substance Abuse Services (DSAS), the Division of Alcoholism and Alcohol Abuse (DAAA), and the Office of Mental Health (OMH), while the IOCC will assure compliance with federal regulations relating to block grant application, reporting, audit and program evaluation requirements.

Based on federal mandates requiring states to allocate ADAMHA funds in proportion to previous spending, New York will use 19.2 percent of its 1982 ADAMHA block grant for mental health services and 80.7 percent for alcohol and substance abuse programs. The state also will fund ten community mental health cetners that meet federal requirements for continued funding.

The amount of ADAMHA funding available for distribution to the states under the continuing resolution is $428.1 million. New York's share is $36.4 million, and in accordance with the Omnibus Reconciliation Act, the following minimum program allocations must be maintained: mental health services, 19.2 percent; alcohol programs, 35 percent; drug abuse, 35 percent. The remaining percentage will be allocated to the Division of Substance Abuse Services.

DAAA, DSAS, and OMH will contract or award grant funds to various local governments and direct services providers, the method for grant distribution varies as follows:

- DSAS will distribute ADAMHA funds primarily to existing school and community-based treatment and rehabilitation programs, upstate through county-level Locally Designated Agencies, and in New York City, directly. Funding decisions are based on DSAS planning, needs assessment, and grant applications processes.
- DAAA will distribute ADAMHA funds primarily to existing alcoholism services including treatment, rehabilitation, occupational, prevention, and education. Funding decisions are based on local government plans and applications processes.
- OMH will fund the ten OHMCs that meet federal eligiblity requirements according to the Omnibus Reconciliation Act.

Among the performance measures that DSAS and DAA will use in conjunction with needs assessments to evaluate the use of funds by the various components of these service networks are:

- compliance with state and federal rules and regulations;
- maintenance of acceptable capacity utilization rates;
- client retention rates and outcome measures; and
- ability to raise third-party revenues.

The Omnibus Reconciliation Act requires OMH to develop review and evaluative criteria to determine the management and program capacity of OMHCs to achieve self-sufficiency as a basis for further funding.

DSAS, DAA, and OMH will review local and provider applications and prepare annual program reports and financial audits.

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NORTH CAROLINA PUBLICATIONS FOR BLOCK GRANT AND CATEGORICAL PROGRAM ADMINISTRATION

In October 1981, Governor James B. Hunt, Jr. requested that the Secretary of Administration and the Deputy Director of the Office of State Budget and Management be responsible for statewide coordination and consistency in the administration of block grants. Such administration includes procedures for planning, accounting, budgeting, reporting, civil rights compliance, affirmative action, equal employment opportunity, and drafting of state administrative regulations.

As a response to this request, the Secretary of Administration established an Interagency Block Grant Task Force composed of representatives from the Offices of State Budget and Management, Policy and Planning, the State Treasurer and the State Auditor, the Departments of Administration, Human Resources, Public Instruction, and Natural Resources and Community Development. The North Carolina Interagency Task Force, similar to those formed by other states, has addressed immediate concerns in the transition from categorical grants to block grants in state fiscal year 1981-1982. However, recognizing that states will assume a much greater responsibility in the future for the administration of grant programs, the task force decided to develop a state procedures manual for the administration of federal block and categorical grants.

Uniform State Administrative Procedures Manual

The first phase of this effort will focus on the development of uniform state administrative procedures for all the block grants. The second phase will involve expanding the manual to cover the administration of categorical federal programs as well. When complete, state and local officials in North Carolina will have a single reference guide for state administation of federal programs. A major component of the initiative is the development of uniform state assurances in areas such as civil rights, affirmative action, equal employment opportunity, and others.

The Interagency Task Force has been collecting information from state departments concerning the federal laws, regulations, guidelines, and other procedures they now are expected to follow in the administration of federal grants programs. The purpose of this study has been to ascertain the legal basis of federal requirements and determine where federal guidelines and procedures are overly prescriptive. This information will be important for the state as it establishes its own procedures.

The manual will attempt to correct the problem of multiple planning, reporting, budgeting, and assurance requirements, i.e., procedures required by one program, grant, or level of government but which seldom if ever are used to satisfy the requirements of other programs, grants, or levels of government. Some remaining federal categorical programs undoubtedly will continue to have some highly detailed and burdensome administrative requirements that cannot be incorporated into the procedures manual; nevertheless, the identification of these will assist in ongoing efforts by the state to simplify and streamline federal administrative requirements.

Recipient's Guide Book for Subgrantees

In addition to the procedures manual, the Interagency Task Force will attempt to publish a recipient's guide book for subgrantees. In the past, many requirements have been imposed on subgrantees by state agencies and these requirements have been inconsistent with the requirements of other state agencies. The Task Force is working to minimize this problem as well as to reduce the number of add-on requirements by the state.

State Register

The Department of Administration has prepared a feasibility study and management plan and is seeking funding for the establishment of a State Register, a periodic single source of information about state regulations.

Result: Simplified Administration of Programs

The development of the above referenced publications will serve not only to assist local governments and subgrantees, but also to provide state government with a more simplified and efficient method of administering federal and state programs. The task force believes that the increased administrative flexibility afforded by the block grants should be followed by the development of single and uniform state procedures for grants administration. The current initiatives in North Carolina are expected to contribute greatly toward this goal.

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NORTH DAKOTA BLOCK GRANT IMPLEMENTATION PROGRESS

North Dakota views block grants as an opportunity to benefit state and local governments and citizens. To this end, the state has elected to administer the eight FFY 1982 block grants and to date is realizing success in its efforts toward greater efficiency and effectiveness, increased coordination with local governments, fewer administrative burdens, and better targeting of resources to locally-determined needs.

The state agencies which are assigned to administer the block grants are reporting that the transference of skills acquired through those programs to block grants is occurring without difficulty. With most of the block grants, the state has gone beyond the requirements in the Act for obtaining citizen input and a productive working relationship has been established with the legislature.

In consideration of budget cuts that are accompanying the block grants, the state's main concern is the critical need for the various responsibilities of the federal, state, and local governments for public programs to be sorted out and articulated clearly; turnback of revenue sources is crucial for block grant and program viability.

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OHIO COMMUNITY DEVELOPMENT PROGRAM

Governor Rhodes has designated the Department of Economic and Community Development to administer the Community Development Block Grant Program for small cities. Some program details have to be worked out, but the basic approach has been decided which is substantially different from the way the U. S. Department of Housing and Urban Development (HUD) administered the program. Ohio's approach seeks to accomplish four objectives:

- to meet the development needs of a large number of communities and provide predictable annual funding;
- to ensure that communities with greater needs receive a larger share of the funds;
- to increase local government control over decisionmaking and program management; and
- to create a sustained, coordinated development system that will stimulate public and private investment in Ohio's cities.

Based on these objectives, CDBG funds will be distributed to all eligible cities and counties in Ohio according to a per capita formula that incorporates indicators of distress. Distressed cities and counties will receive twice the per capita allocation of those that are not. Distress will be measured by a combination of five factors: unemployment, growth of employment, population growth, change in per capita income, and change in assessed valuation of real and personal property. Cities and counties may work together and pool their funds. A single unit of government or a regional organization may administer cooperative efforts.

The state will train grantees in program management and design, leveraging, commercial rehabilitation, downtown development, and innovative financing. Workshops will be held on real property acquisition, public improvements construction, housing rehabilitation, and relocation.

This approach to the CDBG program is a better solution to Ohio's needs and it can be integrated more easily with other state economic and community development programs.

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OREGON POLICY ANALYSIS TO DEVELOP DISTRIBUTION FORMULA FOR EDUCATION BLOCK GRANT FUNDS TO LOCAL DISTRICTS

One of the most urgent items in need of resolution in the Oregon educational community is the formula to be used in computing allocations of Education Block Grant funds to local school districts. To assist the State Advisory Committee (appointed by the Governor to consider the funding formula and other issues and to make recommendations to the State Board of Education), the Oregon Department of Education has developed a set of policy analysis worksheets which help to sharpen the focus of allocation and related recommendations by the committee within the context of pressing policy questions.

Worksheet Designed to Aid Policy Analysis

A policy analysis worksheet is being used for each of many policy questions. These are being raised around several sets of major issues: authorized expenditure functions within the block grant legislation, legal issues which may require state board of education rulemaking, and operational issues. Each of the worksheets provides background information on the policy question under consideration, lists preliminary alternatives and requires development of written recommendations based upon use of the worksheet data in committee discussion.

The primary policy question under consideration by the committee is identification of factors that should be included in the funding formula for distribution of funds to local districts and the weighting to be given to these factors. The policy analysis worksheet for this important set of recommendations has been used by the committee to conduct microcomputer analyses of funding distribution factors and weightings.

For this analysis, the committee also has provided a worksheet illustrating a sample computer printout that lists twelve Oregon districts of varying size, geographical area, and economic circumstance. Three sample factors on this second worksheet are identical to those named in block grant legislation. While not mandated by law, they are a point of departure for discussion on how an allocation formula works.

Committee recommendations are as follows:

- Of the total amount of Education Block Grant funds passed through to local districts, a minimum of $100.00 per district will be assured.
- 70 percent of the funds will be distributed to districts on the basis of resident average daily membership (student average daily membership).
- 30 percent of available funds will be distributed to districts on the basis of six factors equalized by students per capita. Three of the factors are those for which the state has hard statistical student count data:

low-income (ESEA Title I census count), geographic isolation of schools (qualifications established by Oregon), and handicapped students (handicapped child census). The other three factors are to be considered only if the district has a program in place and currently is serving through those programs students who: have racial, ethnic, and cultural differences; have limited English speaking abilities; and are talented/gifted.

Although it has been recommended that these funds be distributed to districts as reimbursement for higher than average costs related to the factors identified, the districts are authorized under the Education Block Grant to spend their allocations according to priorities set locally.

Other Policy Questions Under Analysis

Legal issues:

- What is the definition of a "Local Educational Agency" for purposes of the Act?
- Can the state allow block grant funds to be used for a district program that in the past was supported by local funds and now would have to be discontinued due to the lack of an external source of funding?
- Should the state assume a monitoring role to protect against the potential "misuse" of funds by local districts?
- How would a state agency discharge its obligation to serve private school students within its boundaries if the local educational agency would choose not to accept block grant funds?
- What, for the purposes of this legislation, is the state's definition of a "private school"?
- What should be the primary uses of state-level funds?
- What relationship should exist between state and local uses within the three subchapters of the Act?
- How comprehensive should the state plan for evaluation be at each level?

Operational issues:

- Is there an advantage to be gained by distributing block grant funds through the ESDs and county units?
- How extensively and for what purpose should applications be reviewed by the state?
- What types of data should districts be required to keep for program evaluation and fiscal accounting purposes?

- Should the department encourage districts to pool block grant funds to increase their impact? If so, how? Incentives? Through guidelines and training sessions?

Recommendations Subject to Comprehensive Planning and Review Process

Once the committee has completed the decisionmaking process, the recommended policies are incorporated into the state plan for the block grant.

A comprehensive process for review and approval of the state plan has been developed by the Department of Education with roles, responsibilities and target dates specified for task completion by the agencies and parties involved.

Local Involvement in Community Development Block Grant (CDBG) Planning

Local governments have extensive involvement in CDBG planning, opportunities which have resulted due to the following components in the planning process:

- local officials are given the opportunity by the CDBG Policy Advisory Committee to assist in developing recommendations for the Governor, as well as to review draft program design;
- the state is given permission by the Technical Advisory Committee to tap local expertise;
- city/county officials are given a voice via written surveys; and
- public hearings are held, as required.

Liability is an issue that merits closer attention. Since CDBG program requirements are likely to change, successful competitors for grants also will change. The loser may well be the state. In anticipation, Oregon is more likely to write complex regulations to protect itself from expensive lawsuits.

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PENNSYLVANIA HUMAN RESOURCES POLICY INNOVATIONS

Governor Thornburgh has established a set of basic objectives for Pennsylvania's response to the block grants:

- to carefully plan for the assumption of block grants and for absorption of the federal budget cuts, with the advice and involvement of citizens, state and local officials;
- to adjust as rapidly as possible to changes in federal eligibility standards, regulations, etc., with as little disruption to programs and services as possible;
- to reduce administrative costs and unnecessary requirements wherever possible to minimize the impact of funding reductions; and
- to insure that state priorities and needs continue to receive primary emphasis and attention.

On October 1, 1981, the Governor notified the appropriate federal agencies that Pennsylvania would assume responsibility for all those federal block grants in which the state was eligible to participate in FY 1982.

Human Resources Committee of the Cabinet

Because of the importance and complexity of the task, the Governor established a Human Resources Committee of the Cabinet to coordinate the state's response to these new opportunities. This year's efforts represent only the beginning of a multi-year process of refocusing programs included in the blocks on the most pressing needs of the state's communities and citizens. The Human Resources Committee of the Cabinet held six information forums throughout Pennsylvania in September 1981 to inform the citizenry of these changes and state activities underway. Since then, the Committee has continued an outreach effort that has covered 51 of the state's 67 counties and involved over 200 sessions throughout the Commonwealth. The Committee is continuing to formulate additional plans this year, including the development of appropriate mini-block grants to localities as a component of several of the block grants—in the spirit of the national government's New Federalism initiatives—and is working with various Cabinet members to reduce administrative costs and regulations in light of the replacement of categorical grants by block grants.

"Mini-Block" Grants to Counties

In the coming year, Pennsylvania will examine the feasibility of providing "mini-block" grants in several program areas to counties, permitting local governments the flexibility to set priorities on services and to design individual delivery mechanisms reflecting the needs of their areas. In addition, with the advent of the block grants, Pennsylvania's Department of Aging is developing plans to consolidate all federal funds provided to area agencies on aging (including part of the Social Services Block Grant along with other federal categorical grants) into a single Aging Services Block Grant with a single set of state regulations and reporting requirements designed to maximize local flexibility and minimize administrative costs. Simplified and standardized eligibility requirements and local flexibility in the determination of service and client priorities will maximize the capacity to target services to the greatest needs as determined by each area agency on aging.

Choices for Pennsylvanians: An Intensive Public Participation and Planning Process

Unlike many of the block grants the state will be receiving that have consolidated existing categorical grants, Pennsylvania (and other states) will be receiving directly from the federal government two block grant funding streams—Community Services and Small Cities CDBG—that formerly were received at local levels. Fortunately, an extensive public participation and planning effort—"Choices for Pennsylvanians"— had been initiated in April 1979 by the Pennsylvania State Planning Board. "Choices" was designed to examine the state's past and future problems and opportunities in two important areas: community conservation and economic development. The program included distribution of a Citizen's Edition (a postage-paid return citizen survey), a 60-minute documentary, and thirty public meetings to be conducted throughout the state. Through presentation of the documentary on statewide public television, public meetings, and presentations to many groups, over 185,000 Pennsylvanians participated in this effort in the Spring of 1981. The results were used in preparation of the State Planning Board's Final and Summary reports on "Choices" in October 1981.

The State Planning Board, which is advisory to both the Governor and General Assembly, provided a number of suggested policies and actions for improving the state's communities and economy. Members of the Governor's Cabinet benefitted from the work of the Board as it was of considerable value in laying out the objectives of the Commuity Services and Small Cities Community Development Block Grants. The Pennsylvania Department of Community Affairs, while providing 90 percent of the CSA Block Grant to previous community action recipients, was able to focus new priorities on use of these funds for employment and training, emergency assistance, and other job development efforts. Community action agencies were encouraged to design programs that focused on these objectives, using maximum local discretion in making the programs locally-responsive.

In the case of the Small Cities Community Development Block Grant, plans are being developed through a statewide task force that is representative of local officials for the purpose of creating local private-public partnerships, economic development, and community conservation efforts that are locally-designed but reflective of state objectives.

During a time of limited resources, the 2½-year effort of the State Planning Board combined with extensive public input has made it possible for the objectives of the new block grants to be realized sooner and more effectively. The state's past experience has been one of extreme frustration in trying to obtain recognition of Pennsylvania's needs and priorities by federal agencies administering former federal categorical programs. In the months ahead, the Commonwealth will be developing new linkages between these block grants and other programs dealing with community conservation and economic development, in order to make maximum use of scarce resources and to better accomplish national as well as state and local objectives.

Conclusion

A watershed year in federalism has been initiated to build interagency consensus, foster public participation, incorporate state-developed processes and plans, and plan for future utilization of new types of state-local roles and relationships.

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RHODE ISLAND A-95 PROCESS

While the A-95 process in Rhode Island has had difficulty as have other A-95 programs in focusing the attention of federal authorities to their decisionmaking, the state always has regarded the A-95 process as a means for review and problem solving within the context of categorical grants. The A-95 process has been implemented by a state committee, as well as by a particular committee dedicated to reviewing human service programs. Rhode Island views this process as an ongoing activity, particularly in light of the fact that the broad-based membership of the A-95 committee always draws a variety of interested citizens from all walks of civic life.

This year, the human services subcommittee was asked by Governor Garrahy to disseminate block grant information throughout the state and this may prove to be a vehicle for further block grant deliberation.

The first phase of block grant planning in Rhode Island was to accommodate large federal reductions in spending. That phase has not been completed. The Governor has pledged to name an advisory committee to make recommendations for a second year of operation. However, there is a need to institutionalize a professional planning process that will involve the citizenry and the difficult choices brought by the block grant process.

The Governor's Policy Office is currently reviewing modification of the A-95 process to accomplish this goal. A-95 review can be refocused upon its original intent and therefore will have a much greater likelihood of success in impacting state decisions.

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SOUTH CAROLINA COUNCIL OF GOVERNMENTS MODEL FOR CDBG IMPLEMENTATION

A Council of Governments model is being developed in South Carolina for the purpose of implementing the Small Cities Community Development Block Grant program. The process of program development will be accomplished with maximum input and advice from local officials. Within the framework and set of tasks established for full-scale implementation, the roles and responsibilities of the Governor's Office, localities, and the Council of Governments (COG) have been established.

Sequential implementation tasks have been planned as follows:

- Design and establish criteria for grant application—The Governor's Office will develop the application package, including the types of information necessary to evaluate an application for funding. In addition, criteria will be established concerning categories of activities such as economic development, community facilities, housing rehabilitation, etc., with the corresponding assignment of points for activities within each category, e.g., newly created jobs, grant fund leveraging by applicant, or number of low- and moderate-income persons served.
- Develop regional benchmark figures—Tentative benchmark figures will be developed once the regional COG Executive Board has determined a ranking order for applications generated within regions. The Governor's Office will use the benchmarks as a guide in ranking all projects submitted by the COGs. (It should be understood that the assigning of benchmark figures to each COG does not obligate the state to award grants in the amount of the established benchmarks.)
- Establish a set-aside for the Governor's Discretionary Fund—Ten percent of the total CDBG funds coming to the Governor's Office will be set aside for special issues and imminent threat situations.

- Conduct regional workshops—Workshops will be held for eligible applicants in each of the ten planning councils and will deal with an explanation of the procedure for applying for CDBG funds and a discussion of criteria developed for reviewing grant applications.

- Complete applications—All applications will be required to be completed within a specified time frame (tentatively, two months). The applicant may complete the application themselves, request assistance from their respective COG, or hire a consultant.

- Transmit completed application to COG—All completed applications will be submitted by locals to their respective planning councils.

- Receive applications—The deadline for completed applications is set tentatively for April 1, 1982.

- Review applications for completeness—Once applications have been received, they will be reviewed and, if additional information is needed, applicants will be requested to supply the information within a specified time.

- Assign points to all applications based on state-established criteria—Each set of criteria established by the state will be assigned a certain number of points, e.g., one criteria for an economic development project application might be the number of newly-created permanent jobs, with additional points given for each new job. Another example might be a community facility project: if an applicant were applying for funds to install a water line, the criteria could be the number of low- and moderate-income families to benefit from installation of the line; again, additional points would be given for each benefiting family. The actual assignment of points will be the responsibility of the staff of the COG within whose geographic boundary each application originates.

- Review and prioritize applicatons—Each COG Board will be responsible for reviewing the points assigned by COG staff for each application and for prioritizing those applications for transmittal to the Governor's Office. A COG Board does not have to assign top priority to the application receiving the most points if it believes an application receiving fewer points will be of more benefit to its respective region (a COG does not obligate the state to fund that application).

- Provide technical assistance to planning councils—A staff person from the Governor's Office will be assigned to each planning council to provide technical assistance and ensure that grant applications are reviewed in a uniform manner throughout the state.

- Receive applications from COGs—All applications will be transmitted to the Governor's Office by planning councils within a specified time.
- Review applications and establish threshold figure—The Governor's Office will review and evaluate all applications submitted and establish a threshold figure for applications that will be considered for funding. If the maximum number of points that an application can receive were 300, the state may assign a threshold figure of 150. This would mean that only those applications receiving 150 points or more would be considered for funding. This threshold figure cannot be established until all applications are received by the state, in order to fairly evaluate the points assigned to all applications. This figure will vary from year to year depending on the quality of the applications.
- Conduct, as appropriate, on-site visits to applicants meeting the threshold figure—The Governor's office will conduct an on-site visit with applicants meeting the threshold figure, to discuss and review information on the application.
- Forward approved application to Governor for his approval/disapproval—The Governor's Office will prioritize the application, taking into account the priorities set by the COG Boards and benchmark figures for each region. The prioritized applications will be sent to the Governor for his approval/disapproval.
- Enter into contractual agreement with each approved applicant—a model contract will be developed for use of CDBG funds and will include items such as local match, and state and federal requirements.
- Make grant awards to approved applications—Once applicants have signed the contracts, the state will issue grant awards to applicants so they may incur costs against the grant.

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SOUTH DAKOTA EVALUATION OF BLOCK GRANT EXPERIENCES

South Dakota proposes to develop an innovative demonstration project to "overhaul" the 1982 block grants. The project will involve three major activities for FY 1983 block grants that may be of interest to other states, as follows:

- Conduct an evaluation of this year's block grant proposals to determine if funding levels and priorities should change and ensure that needed changes are reflected in the upcoming block grant report (e.g., that the shortcomings of FY 1982 block grants are not repeated in FY 1983).
- Develop for the numerous block grant reports a single innovative format designed to encourage effective information dissemination, thereby facilitating a process by which resource allocation decisions are made by the state.
- Formulate an efficient public hearing process that will reduce hearing costs yet allow available information to be presented to as large an audience as possible, thereby giving the state information sufficient for evaluating programs and making resource allocation decisions.

An evaluation of South Dakota's response to block grants in FY 1982 is relevant to other states in that they can capitalize on information gained from reviewing:

- the adjustments made by South Dakota after one year's experience with the blocks;
- the utility of developing block grant proposals with a firm idea of future funding (this was not possible in FY 1982 due to uncertainty of the budget); and
- the advantage of a single innovative format that clearly presents all information necessary to develop and manage block grants.
- the process of an efficient public hearing to use as a prototype.

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TENNESSEE HUMAN RESOURCE PLANNING TASK FORCE PROGRAM

The citizen-taxpayer is looking to government to do a better job of providing basic services. A decade of experience with governmental human resource programs has led to the general view that better programs can be developed through creative federalism at the state and local government levels. Consequently, more program responsibilty is being given to state and local governments through such programs as federal revenue sharing, block grants, and a general decentralization of the federal bureaucracy.

It is to aid in this transition period and to help in the coordination and consolidation of human service delivery programs, that the Tennessee Human Resource Planning Task Force project is being proposed. The task force will:

- develop a one-year comprehensive plan for human resource service delivery, based on information and substantial input from all public and private service delivery programs; the plan will allow the task force to estimate during "transitional phases" the impact of new programs as to funding requirements and impact on the service delivery system; and
- seek out all funding sources for programs and aid program areas and agencies in the development of coordinated block grants; it is hoped that the flow of dollars back to service delivery areas will be increased substantially without increasing local spending or reducing services to children and their families.

The information gathered by the task force will be made available to legislative and executive branches, agency administrators, and other decisionmakers in order to: plan and deliver needed services at the local level of government; build effective service delivery and get the most for the "dollar"; avoid program confusion among service recipients; make the best use of all human service programs in Tennessee for the betterment of its children.

Task Force Membership and Staffing

The working task force of deputy commissioners and special assistants to the Governor will be continued throughout the first and subsequent years of human services block grant implementation. Although final plans have not been made, initially the task force has been designed to consist of assistant commissioners and directors of independent commissions who have daily programmatic and administrative responsibility for the delivery of human service programs.

The task force will meet weekly, then monthly, to discuss human service delivery problems and new programs and their effects on the system. The Tennessee State Planning Office will act not only as staff for the task force but also serve as its focal point. The structure should increase state flexibility in handling new approaches to human service delivery that are being brought about by block grants, as well as increase the state's ability to deliver a slate of services in a more efficient and systematized way to children and their families.

Executive Briefing

The Governor's cooperation is imperative before any level of authority can be expected to be responsive in the operation of Tennessee government. Therefore, periodic briefings are planned and will be structured to advise the Governor, his immediate staff, and major officials of responsibility centers in and out of state government, to assure complete coordination and implementation of human service delivery within the state. The briefings reduce the time Governor Alexander and his immediate staff will need in solving daily problems.

Task Force Target Dates

In order to achieve the primary goal of establishing a well-balanced, cost-effective delivery system for children and their families, the following timetable has been developed:

October 1, 1981	Establish Human Resource Task Force
December 1, 1982	Initiate Regional Delivery System
January 1, 1983	Re-evaluate Proposed System After Public Review
April 1, 1983	Regional Delivery System Put Into Operational Mode
July 1, 1983	Reassess Child Welfare Programming/Establish Fiscal Year 1983 Goals and Objectives

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TEXAS HEADSTART ON MANAGING FEDERAL GRANTS-IN-AID

Shortly after his inauguration in 1979, Governor Clements created a program called the Texas State Government Program. The results of this seven-point program over the last 2½ years have been: improved management, more effective service delivery, and, at the same time, reduced number of state employees. The improvement of efficiency and effectiveness of state government has prepared Texas for assuming a stronger state role in block grant management and "New Federalism" proposals.

Well in advance of enactment of the Omnibus Reconciliation Act of 1981, the Governor directed the state agencies and universities to begin developing operating plans that would anticipate overall reductions in federal funding and to begin contingency plans by identifying appropriate reductions in staffing and expenditures. Most state agencies found that this headstart made it much easier to handle the federal funding reductions and to comply with new features of the block grants.

During 1981, the state legislature passed a bill requiring all state agencies to administer federal and state grant funds in accordance with standards established by the Governor's Office. In response to this directive, the Governor asked his Planning and Budget Office to prepare a procedures manual that would be used in administering block grants and other federal grants-in-aid. These procedures were to assist in assuring that the state would efficiently administer the block grants and effectively account for use of the funds. State agencies, local governments, and private organizations have been assisting the Governor's Office in preparing this grant management manual which is scheduled to be published and implemented in September 1982.

In April 1981, the Governor created a task force on block grants which tracked the development of the block grant programs, analyzed the final block grant legislation, and submitted recommendations to the Governor for implementing block grants for FY 1982. The task force has been assisting the Governor's Office in developing procedures that will assure local governments and citizens the opportunity to provide input in developing intended user reports for FY 1983 block grants. The task force also has assisted in preparing final reports for legislative and agency hearings scheduled for the Summer of 1982.

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UTAH GOVERNOR'S ACTION PLAN FOR QUALITY ELEMENTARY AND SECONDARY EDUCATION

Utah Governor Scott Matheson soon will be publishing the state's first gubernatorial public education policy. Historically, the state has been proud of its strong commitment to education, but whether that commitment will continue is one of the most presing policy questions facing the citizens of the state. Because of a birth rate that is double the national average, school enrollments are exploding. Simultaneously, the state budget is constrained, urbanization has created new requirements for public resources, the federal government's role in education is in transition, and the taxpayer is demanding relief.

Recognizing the need for swift action to address these critical issues, Governor Matheson directed his staff to develop an action-oriented education policy. The result was "Solving the School Crisis: Governor's Action Plan for Quality Elementary and Secondary Education", the purpose of which would be to:

- assist the State Board of Education and local boards to bring pressing educational issues to the forefront;
- establish a solid decisionmaking framework designed to strengthen educational leadership at the local level; and
- synthesize the recommendations from three statewide studies of educational needs and priorities completed since 1979.

The policy addresses Utah's three priority issues in public education: establishing basic purposes of public education; financing public education, and providing facilities for public schools. Given the state's spartan fiscal environment, quality must be equated with effective use of resources and doing fewer things, but doing them well. Promoting the identification of "fewer things", for basic education purposes, is a major objective the action plan.

The process for targeting resources toward the basic purposes identified in the plan is community-based educational planning. By locating and integrating the whole range of a community's assets into the education effort, an indispensable step can be taken toward achieving quality education. Local educational planning is also the mechanism for implementing viable alternatives which will ease the facilities and financial pressures currently being experienced. To give local districts the flexibility to pursue innovative solutions to these problems, the policy promotes the idea of a state block grant for education. Inspired by the "New Federalism" philosophy, this method for allocating school funds to local districts groups similar categories in Utah's existing Minimum School Program. This year the Governor recommended to the Utah Legislature that twenty-nine subcategories be consolidated into eight block grants. The 1982 Public Education Appropriations Subcommittee of the Legislature adopted part of the recommendation and agreed to study the remainder during the interim.

The key to the success of Governor Matheson's action plan lies in the actions ultimately taken. It is anticipated that the plan will be received and acted upon swiftly in a spirit of cooperation and shared responsibility for Utah's most precious resource—young people.

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UTAH FRAMEWORK FOR POLICY-BUDGET DEVELOPMENT

Governor Matheson, through his planning/budgeting offices, has created a framework within which the impacts of President Reagan's federalism-budget cuts recommendations can be analyzed. In preparing for the FY 1983 state budget, the process began with a current conditions analysis, developed policy themes and agency plans, and tracked those plans through the budget process.

The focus of the current conditions analysis to be presented in March 1982 will be the position of Utah in the national environment, with major emphasis on the President's proposals. The state recognizes that it is coping with unknowns and will have to plan for a range of outcomes.

The kick-off for this year's planning/budget cycle will be a two-day seminar in March for budget and planning staffs and department heads. The agenda will include topics such as demographic and economic trends, federal budget and federalism prospects, and key issues facing the state.

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VERMONT APPROPRIATIONS ACT

In April 1981, the Vermont Legislature included as a section of the Annual Appropriations Act a provision for executive-legislative interaction concerning potential federal block grants. The Governor was given the prerogative to accept a block grant if, in his judgement, it was in the best interest of the state.

The approval of the Joint Fiscal Committee, as agent for the Legislature, was required for allocation of the funds for purposes consistent with the basic appropriations in the Act.

The provision maintains legislative oversight while giving the Governor power to determine its value to the State and to accept it unilaterally. A similar expanded provision is being drafted for inclusion in this year's Appropriations Act.

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VERMONT CONSOLIDATED PLAN FOR HUMAN SERVICES

In June 1979, the State Planning Office (located in the Governor's Office) and the Agency of Human Services contracted with the Department of Health and Human Services (DHHS) to begin the Planning Requirements Reform Project. One of the purposes of the project was to link federally-mandated plans to the state's existing planning and budgeting processes. Six DHHS-funded programs were selected for this linkage and three DHHS-funded programs were added the second year. The resulting consolidated plan document successfully met federal plan requirements for all these programs, while providing a base and process for planning and managing human services on the state's own terms. The plan also provided an explicit, holistic view of the state's human services programs that linked program and fiscal planning processes. The plan was used by the legislature, the Governor's Office, and the Agency of Human Services in their efforts to foster true coordination of program management and service delivery.

The Agency of Human Services has developed an effective management approach by standardizing and consolidating the state's planning and budgeting cycles. This approach has weathered two budget cycles, several crisis budget reduction exercises, and initial responses to the Omnibus Reconciliation Act of 1981. The flexibility of this approach has:

- enabled the agency to respond to shifting conditions without developing a new budget each time circumstances change;
- helped synchronize executive and legislative planning cycles, thus increasing the coordination of top-level management in the state; and
- had a reachdown effect, enabling management and technical staff in the departments to influence the shape and substance of consolidated planning, a process supported by the development of close working relationships between central planning staff and managers and planners in the departments and offices.

The consolidated plan resulting from the Planning Requirements Reform Project was used by Vermont as the application for the Social Services Block Grant. The Agency of Human Services will review the requirements and regulations that pertain to all six block grants and the state will submit the consolidated plan to the appropriate DHHS agencies. Vermont expects the review will result in further streamlining of the plan and a clearer relationship between funding and services.

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VIRGINIA STATEWIDE TELECONFERENCE

In November and December 1981, the Office of the Secretary of Human Resources sponsored two statewide teleconferences to engage the general public and human resource service providers in the decisionmaking process associated with block grants.

The basic idea behind the teleconferences was to bring top government officials into a "face-to-face" meeting with interested individuals through the use of telephone and television facilities. During the first half of the programs, the Governor, the Secretary, and six human resource agency heads presented the concept of block grants and related their impact. In the second half of the programs, viewers were encouraged to call in questions via a toll-free number. Questions were relayed to appropriate officials for a live response. Questions not answered on the air received a written response.

The first teleconference—Directions '82: A Teleconference for Human Resource Providers—aired on November 25, 1981 and was targeted for social service professionals. The second teleconference—Money and Human Services: Virginia's Plan—aired on December 10, 1981, focused on the impact of recent federal actions, and was directed to the general public. Both programs were produced by state public information personnel with the help of the Virginia Department of Telecommunications. Utilizing the facilities of WCVE-TV in Richmond, the programs were transmitted via satellite to each of Virginia's five public televisions stations. An interpreter for the hearing disabled was provided on-air. It is estimated that approximately 40,000 viewers (including human service providers, local government officials, and advocacy groups) participated in the program.

VIRGINIA ASSESSMENT OF BLOCK GRANT FUNDING WITHIN THE CONTEXT OF TOTAL FEDERAL FUNDING

Federal Budget Impact (FBI) reports are developed by the Virginia Department of Planning and Budget at key points in the federal budget process to assess the likely impact on state programs of projected and actual changes in federal funding, including block grants. The data is obtained by a series of survey instruments sent to state agencies that receive federal funds. Believed to be a significant policy and management innovation, the objective of these reports is to provide the Governor, cabinet secretaries, state legislators, and administrators with the best information available for effective planning and policy resource allocation decisions used in the development of the state biennial budget and amendments to the budget. The reports contain:

- detailed financial data;
- summaries of significant impacts on policies, levels of program activity, and public programs; and
- state agency recommendations for alternatives dealing with revenue change.

Methodology

The current FBI report is the fifth in a series examining the impact of "New Federalism". It represents an estimation of likely federal revenue changes as of the Third Continuing Appropriations Resolution signed by the President on December 15, 1981. Where final congressional appropriations bills were passed by that date, estimates are based on those funding levels. Key information, generated partially by a survey of state agencies, is contained in tables measuring anticipated revenues as compared with continuing the programs at "present level" (federal revenues received by the program in FY 1980-81).

The report is organized in two parts: (1) figures summarized as statewide totals and (2) figures broken out by federal program and individual reporting agency.

The FBI reports are part of an extensive effort by the Commonwealth of Virginia to monitor and evaluate changes in federal funding levels and their impact. Additional information, copies of the reports, and sample copies of survey forms are available upon request.

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WASHINGTON STATE COMMUNITY SERVICES BLOCK GRANT FUNDING REDISTRIBUTION

Inherent Equity and Statewide Coverage Issues

A major issue confronting the State Planning and Community Affairs Agency, when it began planning for implementation of the Community Services Block Grant (CSBG), was the distribution of diminished resources to all areas of the state. The agency decided that distribution should be based upon these principles: equity and statewide coverage.

At the time of CSBG enactment, eleven of the state's thirty-nine counties (35.02 percent of the population) were served neither by a Community Action Agency, nor by a Limited Purpose Agency serving as a Community Action Agency. It was decided that the new program would evolve into one serving all counties, with the first year to serve as a transition year and used by the most appropriate neighboring grantees to develop relationships and acceptance in those unserved areas. These agencies were allotted funds designated for the unserved counties.

The resulting and potentially much more difficult problem was allocation of funds among the grantees. The agency found that the Community Services Administration had demonstrated a strong urban bias in its distribution of funds (e.g., a county had two community action agencies—one serving a large central city and the other serving the largely rural remainder of the county; while the difference in the poverty population was only 124 persons, the urban agency received $640,000 and the rural agency received only $220,000). Conversely, many counties of the state were quite rural, with small populations but high incidences of poverty. If funds were distributed solely on the basis of poverty population, many of the rural agencies (which often are the primary service deliverer) would not receive sufficient funds to maintain administrative integrity, let alone provide services to poor people.

Working Group Established

Faced with a difficult decision and wishing to tap the experience and ideas of those who ultimately would be impacted by that decision, the agency assembled a special group to work with staff on the development of the community services plan and allocation formula. The working group consisted of agency directors representing rural/urban, large/small, and minority service-oriented agencies. Recognizing that equitable redistribution of funds would result in major funding losses for most urban programs, and that each agency, large or small, had similar operating costs (salaries, space rental, goods and services), the working group decided that each agency should receive the same base amount to cover common costs. Remaining funds would be distributed according to each service area's share of the state's poverty population, thereby, addressing both rural and urban needs.

Full-scale implementation in one step would have resulted in devastating, unanticipated funding reductions to some large agencies. The group decided that the agency should phase in full redistribution. Hence, it was decided that in 1982 no agency would suffer any funding reduction in excess of 30 percent of its 1982 basic funding level. This would provide agencies with one year to plan for the further reductions. Because of the thought given to these issues and because representatives of the affected agencies participated in the planning process, the decisions achieved a remarkable consensus among the local agencies. The decisions, while hurting some and helping others, generally were recognized as fair.

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WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES
STRATEGIC PLAN TO REDUCE EXPENDITURES

The Washington State Department of Social and Health Services (DSHS) made several decisions when it undertook the task of developing a strategic plan to reduce expenditures in order to offset the anticipated loss of federal funds:

- the process would be an open one with considerable opportunity for public involvement;
- service reductions would be made where they would have the least adverse impact upon clients; and
- no program would be exempted from the review, and funds perhaps would be shifted from a totally state-funded program to one that lost federal funds, depending upon priorities.

In other words, the department's plan for absorbing federal budget cuts would not simply mirror federal actions, but would be developed in accordance with state-established priorities.

Steps in the Open Review Process

The department could have chosen the relatively easy approach of simply applying the federal cuts to the affected programs. Another approach would have been to apply a percentage reduction to all departmental program budgets. Instead, the department chose to adopt a process that allowed for a critical analysis of existing programs, public input on the relative importance of DSHS services, and the formulation of an expenditure reduction plan reflecting the basic mission and service priorities of the department.

Program Perspectives

Each program director developed a program perspective (describing clients, services, and priorities) that was reviewed by agency groups related to those programs and by DSHS management. These perspectives provided the basis for identifying issues related to funding requirements for each program.

Department Perspective

The department then synthesized program perspectives into a document—"Department of Social and Health Services Perspective on Implementation of Federal Budget Reductions and Block Grants"—that contained a mission statement and categories of service priorities plus a list of specific program issues. Comment was invited on the draft before it was given general distribution.

Public Review and Comment

Meetings were held in each DSHS region (attendance totaling approximately 1500) for the purpose of allowing the pubic to comment on the departmental perspective. In addition, nearly 1,000 individuals and organizations submitted written comments on the perspective. Staff also met with service providers and client advocacy groups to explain the budget problem, examine options, and solicit constructive suggestions.

Involvement of Other Federal, State, and Local Officials

Early in the process, the DSHS Secretary established an Interagency Task Force to ensure that the department's planning for anticipated federal budget reductions was coordinated with federal, state, and local agencies. DSHS representatives also met with legislators to explain the process and to respond to their questions.

Decision Packages

The DSHS programs developed decision packages on the issues listed in the departmental perspective. Each of these identified options for change, impacts on clients, potential cost savings, projected implementation dates, and any required changes in federal or state laws or regulations. The six DSHS regions reviewed and commented on more than 200 decision packages.

Prioritization

Drawing upon a wealth of public comment and reaction and program director recommendations, department managers conducted a detailed review of all decision packages and ranked them in priority order. These priorities provided the basis for the expenditure reduction plan.

Prioritization of Services

Within the general framework of the DSHS mission, major service types wre grouped into three priority categories:

- Basic Life Support Services—those services designed to ensure provision of essential food, shelter, clothing, medical care, and physical safety for persons unable to do so for themselves (such as protective services, financial assistance, food stamps, residential 24-hour care, acute medical care, and infectious disease control);
- Services to Avoid/Reduce the Need for Basic Life Support Services—such as employment counseling and training, independent living for the disabled, crisis intervention, community outpatient care for the mentally ill and substance abusers, preventive and restorative medical care, and family planning; and
- Services Designed to Improve Access to the Service Delivery System—such as information and referral, advocacy for the elderly and disabled, volunteer programs for the institutionalized, demonstration projects, and outreach.

Application of Priorities to Decision Packages

In all of the deliberations, an effort was made to minimize the adverse impact of possible budget reductions on clients. Some federal cuts would occur in programs considered high-priority by the department. To avoid major service reductions in these programs and offset at least partially the loss of funds, the department chose to generate funds from less critical programs. Among these high-priority programs are Maternal and Child Health, Vocational Rehabilitation, Family Planning, Refugee Assistance, and AFDC administative staff training. Certain Title XX programs were maintained at current levels or reduced less than the full percentage amount: chore services, child protective services, and foster care staff services. In addition, the department proposed to transfer funds to cover potential deficits in the state's mental hospitals. This approach is reflected in the following list of changes:

- a technical adjustment reflecting lower than expected caseloads in income and medical assistance programs;
- elimination of some regulatory activities and reduction of administrative and support costs; and
- collection of fees for a variety of services and client/parent participation in the cost of services.

Legislature's Role in Carrying Out DSHS Expenditure Reduction Plan

It is only after considering all of the aforementioned savings plans, that the Department of Social and Health Services will have to consider further reducing client services. The department could implement some of the planned expenditure reductions with the authority it currently possesses, however, many require changes in the Washington Administrative Code. Implementation of other options depends upon the department's obtaining waivers from federal regulatons. A number of the most important changes depend upon action by the Legislature. Legislative support for specific proposals in the expenditure reduction plan is essential if the department is to achieve expected savings. If necessary legislation is not passed to increase fees, facilitate additional collections, or transfer funds, the department will be forced to cut back further on direct services to clients.

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WEST VIRGINIA PRIMARY CARE BLOCK GRANT PLANNING

First State Planning to Sign Primary Care Block Grant Cooperative Agreement

West Virginia is planning to assume the Primary Care Block Grant (PCBG) when it is available in October 1982, in spite of the stringent federal requirements associated with this block. In October 1981, West Virginia became the first state to sign a cooperative agreement with the Bureau of Community Health Services (BCHS), Department of Health and Human Services to work together during this, the transition year, to provide a smooth transition to state control. Under this agreement, BCHS will continue its statutory responsibility to administer the Community Health Center (CHC) program throughout FY 1982, but decisions concerning the operation of the CHC program in West Virginia will be made with the "active advice, consultation and understanding" of the West Virginia Department of Health. The state will participate in resource allocation, grant reviews, monitoring and technical assistance. Under that agreement, two federal regional office assignees currently are working with the health department and they will act as project officers for the state's twenty-nine community health center grantees. The state recently has completed the first round of joint federal/state reviews of community health center applications held at the state capitol. This activity will enhance greatly the state's ability to administer programs under this block grant in the coming year.

Staffing the Planning Process

West Virginia has assigned one full-time person, Director of Primary Care, to work on the transition to the state's assumption of the PCBG. The project also requires 1.5 FTE secretaries and portions of the time of the Director and Assistant Director of the Office of Community Health Services. These resources, in addition to the federal assignees mentioned above, provide adequate staffing to shepherd the development of policies and programs associated with this block.

Planning Partnership with State Health Department

Another important aspect of this activity has been the establishment of a formal State Health Department/Primary Care Liaison Committee under a Memorandum of Understanding with the West Virginia Primary Care Study Group (the interest group representing the interests of non-profit primary care providers in the state). To the maximum extent possible, the liaison committee is to be involved in the health department's development of policy as it relates to primary care. By working openly in this planning and policy development process, the state hopes to relieve some of the anxiety brought about by the rapid changes in health care funding, and to ensure the valuable input from those actually working in the field into the development of plans and policies.

Benefits of Accepting the Primary Care Block Grant

Perhaps the most important question to be addressed by West Virginia has been "Why accept the Primary Care Block Grant at all?" In spite of the many disincentives in this block, including matching funds requirement, the continuation of federal regulations, and the requirement to continue to fund existing centers at current levels, the state believes that the citizens of West Virginia will be better served by a community health center program administered out of the state capitol rather than from a distant federal regional office. The state will be better able to effect integration with categorical programs which it now controls and, if the experience of community mental health centers is any indication, funding by the state legislature for primary care should be a stabilizing factor for programs around the state. Community health centers are an important state resource and if federal stewardship of these programs is on the decline, it becomes the state's responsibility—a responsibility West Virginia readily accepts.

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WISCONSIN COMMUNITY DEVELOPMENT BLOCK GRANT SMALL CITIES PROGRAM

Goals

As a part of a demonstration project sponsored by the U. S. Department of Housing and Urban Development (HUD), Wisconsin was selected last year to administer the Small Cities preapplication process. In its proposal to HUD, the state established the following program goals:

- to encourage communities to participate in the entire array of eligible CDBG activities, particularly economic development;
- to develop a comprehensive set of need indicators based on both federal and state data;
- to assess the capacity of the applicant to undertake CDBG activities prior to award of the grant;
- to promote coordination of CDBG with other federal and state housing and community development programs; and
- to encourage use of CDBG money as timely execution of CDBG programs through better technical assistance and administration.

These goals were embodied in a rating and ranking system designed to match federal resources with state objectives and local needs.

How Needed Changes Were Accomplished

When notified of Wisconsin's selection, the Governor designated the State Department of Development (DOD) as the responsible agency. An advisory committee was assigned to work with the DOD and included representatives from the HUD area office, the League of Municipalities, the Wisconsin County Boards Association, the Wisconsin Towns Association, and the Wisconsin Council of Regional Planning Organizations. DOD sent copies of the proposed program to over one hundred local governments for review and comment. These suggestions were considered and, when appropriate, were incorporated in the final drafts of Guidelines and Instructions. To acquaint local officials and staff with the program, training sessions were held in four geographic areas of the state.

Revised Indicators of Community Need

Prior to its 1980 revision of the Small Cities selection criteria, HUD relied solely upon substandard housing and poverty persons as indicators of community need. Wisconsin replaced this system with six indicators designed to give a more comprehensive picture of distress: two fiscal—full value per capita (1979) and net mill rate (1979); three economic—per capita income (1977), percentage of persons in poverty (1979), and average unemployment rate (1978-1980); one housing—percentage of households in need of housing assistance (1979).

The Department of Development, in cooperation with the Department of Revenue, compiled the data for each unit of government. An applicant's score on each indicator depended upon its "need" in relation to all other potential applicants. Each community was assigned a value for each of the six indicators. The communities then were ranked in order of need and assigned a score. Each community's total score was a result of the scoring procedure being applied to each indicator. No calculations were required by the applicant. The score for a given community was available upon request.

Applicants also were scored on the impact of the proposed program. Proposals were submitted in the areas of economic conditions, housing and related conditions, and serious deficiencies in public facilities. On comprehensive applications, the points for each area were added and divided by the number of problem areas. Within each program area, there were several components, and within each component, several point scores available. For example, a community received maximum points for its economic development strategy if it documented significant needs and the proposed activities directly addressed those needs. If needs and activities were not strongly linked, the application received fewer points. Although certain components were peculiar to individual program areas, common components of all program areas were: strategy (the extent to which proposed program met the need); cost as compared with other applications; benefits to low- and moderate-income persons (LMI); and concentrated effort (extent to which proposed program combined with other activities to meet community needs).

It was the state's belief that communities should receive some credit for their capacity to plan and implement programs. For this reason, points were awarded to applicants who demonstrated successful community development activities.

Procedures for Processing Preapplications

In 1981, the procedures for processing preapplications were established with the assistance of the HUD area office. Once preapplications were ranked, DOD made recommendations to the area office on funding and submission of full applications.

For FY 1982, the point amounts for various criteria have been changed somewhat, based upon a review of last year's program and upon further consultation with local officials. Because the state will administer other aspects of the program, statewide administrative rules have been formulated and are being published. One goal of the program remains the same, however, to provide the optimal blend of state development objectives and local discretion.

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WYOMING BROKERING OF PEER ASSISTANCE AMONG LOCAL EDUCATIONAL AGENCIES

Since 1980, the Wyoming Department of Education examined its service delivery system seeking more comprehensive use of department resources and better ways to provide systematic contact with school districts. It was determined that all department activities should focus on services that strengthened instruction and that these services should reflect department priorities, statutory program and fiscal responsibilities, and the districts' needs.

Federal funding cutbacks affecting eighteen state educational agency positions provided the final impetus to adopt a new concept in 1981. Although agency staff continued to offer "expertise" and consultation in the curricular areas, they were reassigned a primary role as brokers to the districts. They visited designated districts regularly and offered assistance in identifying needs, arranging workshops, and evaluating programs. They asked district staff to assist the department in designing regulations and assessing department effectiveness.

District superintendents were appointed to work with the brokers and were given the opportunity to periodically evaluate services and resources available to local districts. The first two primary tasks for brokers were: to assist districts in determining and fulfilling recertification needs and to request local agency assistance in formulating state-level Title I regulations.

Other tasks and priorities have been determined as brokers and district staff have worked together in the newly structured system.

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APPENDIX A

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APPENDIX B

ORGANIZATIONS CONDUCTING BLOCK GRANT SURVEYS OR STUDIES

ADVISORY COMMISSSION ON INTERGOVERNMENTAL RELATIONS (ACIR) Contact: Jean Lawson 1111 20th Street N.W. Washington, D. C. 20575 202/653-5536	As part of an existing monitoring process, a survey of four "study" states was conducted and the results were published in an ACIR Information Bulletin on block grants in September 1981. ACIR plans to re-examine these four states, as well as conduct a similar survey on the local level in April or May 1982.
AMERICAN ASSOCIATION OF SCHOOL ADMINISTRATORS (AASA) Contact: Joseph Scherer 1801 North Moore Street Arlington, Virginia 22009 703/528-0700	A telephone survey focusing on education block grants was conducted of each state to obtain the following information: date of implementation; schedule of public meetings; application forms for local districts; status of Governor's Advisory Council; and whether any transfers were made to ESEA from other blocks.
AMERICAN PUBLIC WELFARE ASSOCIATION (APWA) Contact: Dr. Toshio Tatara 1125 Fifteenth Street N.W. Washington, D. C. 20005 202/293-7550	Implementation issues related to the Social Services Block Grant (SSBG) were examined in a mail survey of states and included the following: planning, MIS, auditing, purchase of services, public participation, staff training, service delivery methods, outcome evaluations, and state legislation.
FLORIDA ADVISORY COUNCIL ON INTERGOVERNMENTAL RELATIONS (FLORIDA ACIR) Contact: Robert Bradley Suite 400 Lewis State Bank Building Tallahassee, Florida 32304 904/488-9627	A mail survey on block grants (except ESEA) was sent to local elected officials; the survey centered on local input to block grants, impact on local budgets and questions specific to each block grant. A more detailed survey on the same subject was conducted of local administrators.

FORD FOUNDATION Contact: Frank Logue 173 Livingston Street New Haven, Connecticut 06511 203/776-2282	A survey of nine states was conducted to assess the capacity of states to carry out block grant implementation. It addressed such issues as governmental structure, state revenue capacities, planning, and accomplishments to date.
INTERGOVERNMENTAL HEALTH POLICY PROJECT (IHPP) Contact: Peggy O'Kane Suite 505 1919 Pennsylvania Avenue N.W. Washington, D. C. 20006 202/872-1445	A telephone survey of all but two states was conducted to examine health block grants. The predominant focus was on state executive/legislative relationships, lost federal funds, method for state-level cuts, and implementation plans.
NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS (NASBO) Contact: Jim Mallory Suite 328 400 North Capitol Street Washington, D. C. 20001 202/624-5322	A mail survey of states was conducted to determine the impact of federal funding and to what extent federal funds would be supplemented with state funds, whether state funding reductions would parallel federal reductions, and what changes in programs have taken place as a result of block grants in seven major categories.
NATIONAL ASSOCIATION OF STATE LEGISLATURES (NCSL) Contact: Karen Benker Suite 1500 1125 17th Street Denver, Colorado 80202 303/623-6600	A mail survey and telephone follow-up was conducted of all state legislative fiscal staff to examine how many legislatures were appropriating federal funds under the nine block grants, and if there was an emerging pattern of more legislative appropriations than in the past.
OFFICE OF MANAGEMENT AND BUDGET (OMB) Contact: Frank Lewis New Executive Office Building, Room 5236 Washington, D. C. 20503	The OMB Task Force on Regulatory Reform continues to examine policy and policy coordination for opportunities to further reduce unnecessary regulations. Field work on block grant implementation activities is being considered.

U. S. GOVERNMENT ACCOUNTING OFFICE Contact: Gener Dodaro GAO Building, Room 3350 441 'G' Street N.W. Washington, D. C. 20548 202/275-6169	A field study of thirteen states to examine transition to the nine block grants was conducted and focused on federal management of the transition, state legislative involvement, role of the Governor's Office, and changes in mode of operation. The purpose of the study was to assist Congress in determining what modifications to existing blocks are needed and in considering future blocks.
UNITED WAY OF AMERICA Contact: Pat Barrett 801 North Fairfax Street Alexandria, Virginia 22314 703/836-7100	A telephone survey of individuals and organizations representing the United Way was conducted to gather data on advisory councils, the role of state legislatures in block grant implementation, targeting of cuts, and changes in eligibility, and to stimulate ideas on block grants in general.
URBAN INSTITUTE Contact: Gene Durman 2100 'M' Street N.W. Washington, D. C. 20037 202/223-1950	A site-visit study was done in eleven states to examine block grants as part of a larger study of federal grants-in-aid programs. The study focused on state/local governmental relationships, changes in levels of expenditure, and programmatic adjustments.
WOODROW WILSON SCHOOL OF PUBLIC AND INTERNATIONAL AFFAIRS, Princeton University Contact: Richard Nathan Princeton University Princeton, New Jersey 08450 609/452-4866	A field research study will be conducted in selected geographic areas of the United States to examine the impact of block grants and changes in federal domestic programs.

STATE CDBG PROGRAM BRIEFS

A Series of Summaries on the Individual State Community Development Block Grant Programs

Council of State Community Affairs Agencies
Hall of the States
444 North Capitol Street, Suite 251
Washington, D.C. 20001

May 1982

Volume I

ACKNOWLEDGEMENTS

COSCAA acknowledges and thanks the 15 state community development coordinators who provided information to this first volume in a series of individual state CDBG program summaries. In most cases, they were asked to organize and forward massive amounts of information in a short period of time. They also had the monumental patience to answer numerous inquiries and review the drafts to ensure their accuracy.

The Council of State Community Affairs Agencies (COSCAA) is the national organization representing state executive level agencies responsible for a variety of local assistance functions in financial management, community development, economic development, housing, human resources, planning, training, and management capacity building.

Additional copies of Volume I of this series is available from COSCAA at a cost of $25.00.

STATE CDBG PROGRAM BRIEFS

Preface

In August of 1981, Congress enacted major revisions in the Housing and Community Development Act of 1974 which provided states with the option of administering the HUD Small Cities Community Development Block Grant Program. Since last August, a number of states have been debating whether to take the program in FY 82 or in later years. This decision-making process has included numerous meetings between state and local officials, the establishment of state-local technical and policy advisory committees, and the development of many different program designs and selection procedures.

During the past few months, COSCAA has been closely monitoring the State Community Development Block Grant Program and providing technical assistance and information to states preparing to implement the program in FY 82. As of March 8, 1981, the effective date of the State CDBG Program regulations, approximately 32-35 states have decided to administer the program in FY 82, with the balance of the states coming into the program in FY 83. Of the 32-35 states entering the program this fiscal year, approximately 20 states have designed their programs and are prepared to accept applications for the program.

In an effort to evaluate and understand the thrust of the new program, COSCAA has prepared a series of brief program summaries of the new individual state CDBG programs. These summaries will be used to assist other states as they prepare to gear up for the program and provide COSCAA with an opportunity to examine the State CDBG Program from the national perspective.

The data for the summaries came from the program design documents which states have prepared in conjunction with their local officials. Each state program summary, is divided into four areas: (1) Program Preparation, (2) Program Design, (3) Selection Criteria and (4) Other Provisions.

COSCAA has included the following fifteen states in this first volume: Alabama, Arizona, Georgia, Idaho, Illinois, Kentucky, Maine, Massachusetts, Nebraska, North Dakota, Ohio, South Carolina, West Virginia, and Wyoming. Additional state briefs will be available as states complete their program designs and can be subsequently added to this volume.

ALABAMA

ADMINISTERING AGENCY: Office of State Planning and Federal Programs

STATE CDBG ALLOCATION: $31,727,000

PREVIOUS MULTI-YEAR COMMITMENTS: $12,757,000

Program Preparation

The State of Alabama established a Technical Advisory Committee and a Policy Committee composed of local CD practitioners and representatives local interest groups. The state also sponsored a series of regional workshops to familiarize elected and other local officials with the design of the new program. Approximately 550 local officials attended these four regional meetings.

Program Design

The Alabama Community Development Block Grant Program differs significantly from the HUD-administered program. The state will administer a competitive program with six separate funding categories and will have overall goals which are similar to the HUD administered program. The three primary goals of the program are listed below:

- o Provide essential community facilities such as water and sewer through correction of deficiencies which affect health and safety.
- o Promote economic development to create new jobs, retain existing employment and expand local tax base
- o Provide decent housing, especially to families of low and moderate incomes, by improving the condition of the existing housing stock.

In accordance with these goals, Alabama designed its program with a number of objectives in mind. First, funds will be awarded on a competitive basis to a larger number of applicants by lowering the grant ceiling and eliminating multi-year commitments. Second, the seection of more economic development projects should be facilitated by setting aside a certain portion of CDBG funds and distributing them on a quarterly basis. Finally, the new system should allow for a more equitable competition by letting small cities, large cities, and counties compete in their respective groups.

Alabama will distribute its CD funds through six separate funding categories: Except for the Economic Development Fund, the Planning Fund, and the Discretionary Fund, which may be applied for by all non-entitlement governments, funds will be divided into three allotments - one for counties, one for large cities, and one for small cities. Any community competing for the Economic Development and/or the Planning Fund will not be excluded from competing for applicable Counties, Large Cities, or Small Cities fund. Listed below is a brief summary of each fund:

State Discretionary Fund.

Approximately 10 percent of the state funds will be available to address disasters, imminent threats, and urgent needs; to areas in the State with identifiable needs which have not received an equitable share of funds, and to react quickly to opportunities where an exceptional economic development project may be lost if money is not available to provide necessary public facilities.

Economic Development Fund.

The state will set-aside approximately $2,500,000 million to fund activities necessary for economic development projects. Eligible jurisdictions are invited to submit applications continually. Awards will be made on a quarterly basis. To ensure maximum flexibility, applications may be submitted at any time up to three weeks prior to the date of the award. The maximum grant amount will be $150,000; however, the state may waive the limit if the applicant has exhausted all other resources.

In order to qualify for such funds, the applicant must meet the following threshold requirements:

- The proposal must be associated with an economic development project creating and/or retaining permanent jobs.
- The state CD dollars must leverage private investment.
- The project must not involve intra-state relocation of an industry.
- Applicants must have a firm private commitment and funds must be used for capital investment.

Selection Criteria for the Economic Development Fund. The following criteria will be used to competitively rate the projects:

o CDBG Dollars per permanent job	12.5%
o Leveraging ratio (CDBG dollars vs all other dollars)	12.5%
o Projected increase in local revenues	12.5%
o Number of permanent jobs created/retained	12.5%
o Distress factors	33%
a. unemployment (annual average for the past two years)	
b. % of low-moderate income persons (based on 80% of State median income)	
o Other factors	17%
a. Timetable	
b. Potential for spin-off	
c. Indirect benefits	
d. Job diversification	
e. Urgency	

Planning Fund.

Approximately $150,000 will be available to assist communities having a need for community planning. The maximum grant has been set at $7,500 with the applicant matching the grant on a dollar for dollar basis through non-CDBG funds or in-kind contributions. The following considerations will be taken into account in the rating process: size of the community, amount of fund requested, type and urgency of planning activity proposed, applicant's previous planning efforts and their adherence to previous plans, and qualifications of personnel preparing the proposed activity.

County Fund.

A set aside of $2,158,031 will be available on a competitive basis for non-entitlement counties in the state.

Large Cities Fund.

A reservation of approximately $5,268,134 will be allocated to cities of 5,000 or more population. These funds will be awarded on a competitive basis.

Small Cities Fund.

Approximately $5,268,134 will be reserved for cities under 5,000 in population. Eligible applicants under 5,000 will compete for CD dollars in this fund.

Types of Grants. Two types of grants are available under the County, Large Cities, and Small Cities Funds: (1) Single Purpose Grants and (2) Comprehensive Grants. In both categories, localities are eligible to apply for funds in the areas of housing and community facilities.

Single Purpose Grants. Designed for communities to address to specific community development needs (e.g., housing, deficiencies in public facilities). The grant ceilings for single purpose grants are listed below:

Counties	Large Cities	Small Cities
$350,000	$350,000	$300,000

Comprehensive Grants. Designed for recipients to address a substantial portion of the identified community development needs of an area. A comprehensive grant should involve two or more activites related to each other that will be carried out in a coordinated manner. The grant ceilings for comprehensive grants are listed below.

Counties	Large Cities	Small Cities
$500,000	$750,000	$500,000

Selection Criteria

All applicants will compete for funds in their respective categories. Under each of these categories, single purpose applications proposing a housing activity will be rated against other single purpose housing applications, single purpose applications proposing a public facility will be rated against other single purpose public facility applications, and comprehensive program applications will be rated against other comprehensive program applications. Those applicants with relatively high scores will qualify for a site visit which will be made to verify information provided in the applications.

Listed below is an overview of the selection criteria.

	Single Purpose	Comprehensive
o NEED FACTORS	80 pts.(27%)	50 pts.(17%)
- Absolute # of low- and moderate-income persons	40	25
- Percent of low- and moderate-income persons	40	25
o PROGRAM VALUE FACTORS	170 pts.(57%)	200 pts.(67%)
- ratio of dollars to beneficiaries	50	60
- nature of benefits	100	120
- additional efforts necessary to complete proposed activity	10	10
- prior commitments or efforts taken by applicants to address same activity	10	10
o OTHER PROGRAM FACTORS	50 pts.(17%)	50 pts.(17%)
- leveraging	20	20
- local match	20	20
- equal opportunity in local government employment	10	10
TOTAL POINTS	300	300

Other Provisions

Preapplications. The state program eliminates preapplication requirements. Instead, the state will ask for a letter of intent from communities desiring to compete for the state CDBG funds.

Housing Assistance Plans. Housing assistance plans will not be required under the state's CDBG program. Only those applicants who propose housing activities will provide verifiable housing data on a standard housing form.

Citizen Participation Plans. Citizen participation plans will not be required. Instead, the state program will require a certification that the applicant recognizes the responsibility for dealing with local public opinion concerning the merits of the proposed project, and that if public input is not solicited in project selection and design, local officials should answer all citizen questions arising concerning the project selection and design.

Use of Substate Districts. During the design process, representatives of substate districts were included on the Technical Committee. The substate districts will also play a major role in the provision of technical assistance to localities applying for the funds in the State CD Program. The state will be sub-contracting with the substate districts to provide technical assistance under the 107 program.

Estimate of Administrative Costs and Staffing Needs. The state intends to appropriate $450,000 to cover the administrative cost of the program. The state plans to use a staff of between 10 and 12 to run the program.

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ARIZONA

ADMINISTERING AGENCY: Office of Economic Planning and Development

STATE CDBG ALLOCATION: $5,998,000

PREVIOUS MULTI-YEAR COMMITMENTS: $2,400,000

Program Preparation

Under the Arizona plan, regional councils will play a major role in the selection and distribution of community development funds in the state. The Office of Economic Planning and Development will be responsible for preparing the grant selection process, implementing and ensuring grantee compliance with all applicable federal program requirements, and monitoring grantee program and financial performance.

Program Design

A major objective of the Arizona CDBG Program is to promote a strong local government role in the grant selection process through the representation of its elected officials on the state's regional councils. In an effort to attain this goal, the regional councils will play an integral role in the selection of the state's CD projects.

Under the Arizona system, CD funds will be distributed using two methods: (1) Regional Funding Allocation and (2) the State Special Projects Account.

Regional Funding Allocation

Under Arizona's Regional Funding Approach, approximately 90 percent of the state community development funds will be allocated by region on a formula basis. Each regional council will review applications and recommend new grant recipients and their corresponding funding levels to the state for review and approval.

Under this system, each of the five non-entitlement regional councils will be provided an account of CDBG funds, from which both multi-year and new grants will be drawn. This allotment is based on a formula which includes both population and poverty indicators.

Regional council recommendations must be based on a state-approved regional funding strategy. State approval of regional funding strategies will be based on the following guidelines:

(1) The regional strategy includes a provision that preferential treatment is provided eligible applicants submitting "leveraged" grants; and

(2) That the regional strategy includes a provision that preferential treatment be provided "leveraged" grants in a manner commensurate with the degree of "leveraging" incorporated within the grant application.

A leveraged grant is any grant application which contains a firm public and/or private commitment. Each regional council will determine any and all eligible costs and activities which comprise from public and/or private commitments.

Under the Regional Funding Approach, the following categories are eligible for funding:

- o Acquisition or Disposition of Real Property
- o Public Facilities and Improvements
- o Rehabilitation and Preservation
- o Economic Development

Regional Planning Costs. Each regional council can spend up to $30,000 from their regional account to fund eligible CDBG comprehensive planning activities to be undertaken by the COG. Note that these funds must be drawn from each region's set-aside and inserted in grantees funded with the consent of the Regional Council and grant recipient (locality).

Grant Amounts. Under the Arizona plan, the state will not accept any multi-year funding commitments in FY 82. For FY 82, the state encourages a maximum grant level of $400,000 and a minimum grant level of $100,000.

State Special Projects Account

The state will set-aside approximately 10% of its funds to a Special Projects Account in which eligible applicants can compete for funding directly from the state. The Executive Director of OEPAD will make all grant selection decisions based on recommendations from the State Economic Planning and Development Board. The Board will make recommendations based on a set of selection criteria which emphasizes "leveraged" economic development grant activities. The state will not fund more than one CD grant per eligible applicant in one year, therefore, a locality receiving a grant from the Regional Funding Approach is not eligible to receive a grant under the state Special Projects Account.

Under the Arizona plan, the state has established certain threshold criteria or minimum levels which each grant recipient from the State or Regional Account must meet before they are funded. These threshold requirements are crucial to the Arizona program since they establish minimum levels associated with all grants. The minimum threshold criteria fall into the following categories, with the state staff determining compliance:

> Grant Administration and Financial Requirements. To ensure compliance all grant activities, projects, and costs must be eligible given federal and state guidelines. All grant costs should be realistic given the nature and type of grant activity. The state will not fund grants with inherent cost overrun problems. Finally, all applicants must have the capacity to complete their programs. Communities are assumed to have such a capacity until evidence to the contrary becomes apparent via monitoring visits.
>
> Federal Compliance Requirement. All applicants must comply with the applicable federal rules and regulations at the time of application.
>
> Congressional Intent Requirements. Each activity in every grant must meet at least one of the three congressional objectives.

Selection Criteria

The State Economic Planning and Development Board will examine each application on a case-by-case basis and utilize the following selection criteria:

- Employment Impact. This variable will be measured by the net increase in employment opportunities generated by the grant for residents within the target areas.

- Physical Impact. This factor will be measured by such factors as the improvement in the applicant's housing stock, public facilities, or commercial and industrial facilities, and the extent to which other public or private facilities and services exist or will be provided to support the project.

- Degree of Grant Leveraging. This factor will be measured based on the degree to which the applicant has incorporated firm public and/or private commitments within the grant application.

The OEPAD Executive Director will make the selection of applicants to be funded from the Special Projects Account prior to the transmittal of formal Regional Council recommendations to the state concerning applicants to be funded from regional accounts.

Other Provisions

Definition of Low-Moderate Income Citizens. Eighty percent of median family income (concurrent with the HUD Section 8 guidelines).

Citizen Participation Requirements. The state encourages the applicant to hold a public meeting on the proposal. They also recommend that the applicant publicize the meeting of its governing body when it approves a resolution to apply for CDBG funds.

Housing Assistance Plans. HAPs are not required, but detailed documentation of compliance with the state's low and moderate income requirement is mandated.

Estimate of Administrative Cost and Staffing Needs. Arizona expects to use the maximum amount of funds available to administer the program. The state will staff the program with one coordinator, three professional monitors, and one accountant clerk. Indirect activities will be undertaken by the existing administrative division.

In-Behalf-of Applications. Such applications are not allowed in the Arizona program given the simplification of the grant application process, the regional funding approach, and the ability of localities to subcontract grant administration out.

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GEORGIA

ADMINISTERING AGENCY: Department of Community Affairs

STATE CDBG ALLOCATION: $36,376,000

PREVIOUS MULTI-YEAR COMMITMENTS: $15,886,348

Program Preparation

Since the legislation was passed last summer, the Department of Community Affairs has been preparing for the implementation of the block grant. In order to solicit local input, the Governor established two committees to examine the program: the Community Development Block Grant Policy Advisory Committee and the Community Development Block Grant Planning Committee. The state has also sponsored a series of regional meetings to explain the new system.

Program Design

Program Focus. The Georgia CD Program will address four major areas of concern: (1) Housing, (2) Public Facilities, (3) Economic Development, and (4) Community/ Neighborhood Revitalization. All four areas are considered of equal weight. Localities applying for the grants will have the option of establishing their own priorities.

The program competition will be divided into two separate components: (1) Single-Activity and (2) Multi-Activity.

(1) Single-Activity Grants are designed to allow communities to address a specific community development problem within one of the following three areas: housing, economic development, or public facilities.

(2) Multi-Activity Grants are designed to address two or more needs. This also includes activities in the "Community/Neighborhood Revitalization" category.

Grant Amounts. Georgia has established the following maximum grant amounts:

Single Activity Program (minimum of 20% will be reserved)	Multi-Activity Program (1 yr.) (minimum of 20% will be reserved)	Multi-Activity Program (2 yrs.) $1,400,000 (up to 50% can be used)
$400,000	$700,000	$1,400,000

Please note that no new two year grants will be made in FY 82.

Selection Criteria

Georgia's selection system is based upon two overriding directives: (1) the promotion of broader participation, and (2) the distribution of funds to applicants with the greatest need, greatest benefit to low- and moderate-income persons, and greatest project impact. Applicants will have the choice of submitting either a single or multi-activity project for consideration. The two categories will be judged separately, but based upon the same basic rating system. The criteria and their relative importance are:

Poverty Conditions	20%
Benefit to Low- and Moderate-Income Persons	25%
Project Impact	55%

Single Activity Program Application Rating System

a.		Poverty Conditions	0 to 120 Points
	(1)	Total Number of Poverty Persons	0 to 40
	(2)	Percent of Population in Poverty	0 to 40
	(3)	Per Capita Income	0 to 40
b.		Benefit to Low- and Moderate-Income Persons	0 to 150 Points
	(1)	Housing Applications 51 Percent Minimum Benefit Required 75 Percent Benefit Receives Maximum Points	0 to 150
	(2)	Public Facilities Applications 51 Percent Minimum Benefit Required 100 Percent Benefit Receives Maximum Points	0 to 150
	(3)	Economic Development Applications 25 Percent Minimum Benefit Required 51 Percent Benefit Receives Maximum Points	0 to 150
c.		Project Impact	0 to 330 Points
	(1)	Project Feasibility	0 to 110
	(2)	Impact on Need	0 to 110
	(3)	Project Strategy	0 to 110
		TOTAL POSSIBLE POINTS	600 Points

Multi-Activity Program Application Rating System

a.		Poverty Conditions	0 to 120 Points
	(1)	Total Number of Poverty Persons	0 to 40
	(2)	Percent of Population in Poverty	0 to 40
	(3)	Per Capita Income	0 to 40
b.		Benefit to Low- and Moderate-Income Persons -60 percent Minimum Benefit Required -90 Percent Benefit Receives Maximum Points	0 to 150 Points
c.		Program Impact	0 to 330 Points
	(1)	Program Feasibility	0 to 110
	(2)	Program Strategy	0 to 110
**	(3)	Relationship to Objectives	0 to 110
		TOTAL POSSIBLE POINTS	600 Points

** Each applicant must address three (3) of the following six (6) State Objectives:

Supports comprehensive community/neighborhood conservation, stabilization, and/or revitalization.
Removes or prevents slums or blighted conditions.
Addresses a deficiency in a community's public facilities.
Expands or retains permanent jobs.
Resolves a serious threat to health or welfare.
Supports new or improved housing opportunities for low- and moderate-income families.

Other Provisions

Housing Assistance Plans. The state will not require local recipients to submit a housing assistance plan.

Citizen Participation Plan. The state will not require a written citizen participation plan, however, they will require that the local government hold two public hearings on the proposed project to inform the public. The first public hearing is to be held prior to the submission of the application and the second is required when the grant award is announced.

Use of Substates. While the substate districts will not have a direct role in the selection of projects, local jurisdictions will not be precluded from using them.

Estimate of Administrative Cost and Staffing Needs. The state will use approximately $400,000 to administer the program in FY 82. This is well below the two percent maximum. A staff of twelve full time employees will run the program.

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IDAHO

ADMINISTERING AGENCY: Division of Economic and Community Affairs

STATE CDBG ALLOCATION: $6,280,000

PREVIOUS MULTI-YEAR COMMITMENTS: 2,485,000

Program Preparation

In preparation for the State CDBG Program, the Division of Economic and Community Affairs established the Policy Advisory Committee. The Policy Advisory Committee, which consists of state and local officials, decided early to keep Idaho's method of distribution similar to HUD's to eliminate confusion. Upon the completion of the draft selection system, the state held a series of six regional meetings to discuss the competitive program.

Program Design

The objectives of the Idaho CD Block Grant Program are quite similar to the objectives of the HUD-administered program. The state program encourages projects in three areas economic development, housing and public facilities. Also, the program is intended to provide greater opportunities principally for low- and moderate-income citizens.

Eligible Activities. Eligible activities include clearance; acquisition of property; demolition; relocation payments; acquisition; construction; or rehabilitation of public facilities; historic preservation activities; economic development; removal of architectural barriers; and planning, design and administration.

Types of Grants. Idaho will have three types of grants available under its system: (1) Single Purpose Grants which address one or more eligible activities in one of the three categories - economic development, public facilities, or housing. (2) Multi-Purpose Grants address more than one problem area. In communities of 2,500 or more, and (3) an Imminent Threat Grant set-aside will be available for emergency situations.

Both types, single-purpose and multi-purpose applications, may request single-year or multi-year funding up to three years.

Funding Allocation. In the allocation of state CD funds, Idaho will reserve two percent for administrative costs, ten percent for the imminent threat set-aside, and an even split for the remaining portion between multi-year grants and single year grants.

Grant Amounts. Single-purpose grants will be funded to a maximum of $350,000 per year while multi-purpose grants will be funded to a maximum of $500,000 per year. For example:

Single - (1 yr) $350,000	Multi - (1 yr) $500,000
Single - (2 yr) $700,000	Multi - (2 yr) $1,000,000
Single - (3 yr) $1,050,000	Multi - (3 yr) $1,500,000

Selection Criteria

The Division of Economic and Community Affairs (DECA) will accept the applications and begin assigning preliminary points to each application. These preliminary point assignments will be totaled and forwarded to the Division Advisory Council (DAC) which is the local advisory body for the DECD. The members are appointed by the Governor.

The Advisory Council will review the applications, assign final points, and rank the applications. The top ranked applications will be recommended for funding based upon the funds available. The DAC will forward its recommendations to the Governor for final approval.

Project Selection Criteria. The following variables are considered for both single or multi-year funding. These factors are assigned points. The maximum number of points is 575.

- o Program Impact (35% or 200 pts.)
  - Previous Actions. Examines the previous efforts made by the applicant to increase the effectiveness of the project.(50 pts)
  - Additional Actions. Describes the additional resources and activities needed to complete the project.(30 pts)
  - Environmental Considerations. Looks at the impact of the project on the environment.(20 pts)
  - Displacement of Individuals or Businesses. Actions taken to minimize displacement.(20 pts)
  - Results from Funds Requested. Examines the cost effectiveness of the project.(50 pts)
  - Number of People to Benefit. The ratio of the people benefitted.(30 pts)

- o Economic Development (17% or 100 pts.)
  - Total of Jobs Created or Retained.(25 pts)
  - Percentage of Private Funds Invested.(20 pts.)
  - Commitment of New Business to Locate in Project Area.(20 pts)
  - Reasonable Time Frame for the Impact of the Program.(20 pts)
  - Use of a Loan Program.(10 pts)

- o Public Facilities (9% or 50 pts.) Examines how the project will correct a deficiency in or lack of a community's public facility.

- o Improve Housing Stock (9% or 50 pts.) Analyzes how the project will improve the existing housing stock of the community.

- o Benefit to Low- and Moderate-Income Persons (9% or 50 pts.) Looks at the total number of low and moderate income people that will benefit from the project.

- o Prevention of Slum and Blight (9% or 50 pts.) Examines how the project will reduce existing areas of slum and blight in a specific area.

- o High Growth Communities (6% or 35 pts.) An applicant, to receive these points must be experiencing or expect to experience rapid growth within the grant year.

- Funding From Other Sources (4% or 25 pts.) All applicants will be ranked by the percentage of community development funds requested by divided by total project costs.

- Distressed Communities (3% or 15 pts.) Points in this category will be given to communities experiencing high unemployment, loss of major business/employers or declared an economic disaster area.

Other Provisions

Citizen Participation Requirement. The state does not require a written citizen participation plan but it does require that one public hearing be held to discuss the proposed project.

Housing Assistance Plan. The state will not require a housing assistance plan under the program.

Use of Substates. The state will not prescribe a formal role for substate districts but communities will be free to request their assistance.

Estimate of Administrative Costs and Staffing Needs. The state will use the two percent maximum plus match to administer the program. Idaho expects to staff the program with three full-time professionals and four part-time employees.

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ILLINOIS

ADMINISTERING AGENCY: Department of Commerce and Community Affairs

STATE CDBG ALLOCATION: $33,713,000

PREVIOUS MULTI-YEAR COMMITMENTS: $18,005,000

Program Preparation

The State of Illinois will administer the State CD Block Grant Program in FY 82. During the last few months, the Department of Commerce and Community Affairs (DCCA), the administering agency, has been engaged in a dialogue with local officials regarding the design of the program. The DCCA has worked closely with the Governor's Local Government Block Grant Advisory Committee and has established its own CDBG Technical Advisory Committee to review the ranking system. The State has also scheduled a series of regional meetings to explain the system to local officials.

Program Design

The state will retain the competitive nature of the program, although the criteria and areas of emphasis will be changed to a significant degree. Projects will be ranked in one of the following areas of need: economic development, housing and public facilities. Each area will have specific criteria for ranking purposes. In funding projects the state cites the limited amount of dollars and emphasizes the need to leverage the state CD dollars with other sources of funding.

The Illinois State CD Program will emphasize three major areas of concern: (1) economic development, with an emphasis on commercial and industrial retention/expansion and job creation; (2) deficiencies in housing; and (3) inadequate public facilities or services. Local governments are free to apply for projects under more than one problem area within the same application.

Eligible Activities. Listed below are some typical examples of eligible activities in each area:

(1) Economic Development. Land acquisition; public facilities and improvements; acquisition, construction, rehabilitation, or installation of commercial and industrial facilities. DCCA will encourage the use of loans by localities to businesses to allow for recapture of grant funds for use in other community development activities.

(2) Deficiencies in Housing. Real property acquisition; rehabilitation, clearance, demolition, and/or removal of buildings and improvements; rehabilitation of publicly-owned or acquired properties for use of resale in the provision of assisted housing; provision of public facilities to increase housing opportunities; financing the rehabilitation of privately-owned residential or mixed-use properties through either loan or grant programs; and provision of housing for the physically and/or mentally disabled.

(3) Inadequate Public Facilities or Services. Water and sewer facilities, including storm sewers, but excluding sewage treatment works and interceptor sewers; solid waste disposal facilities; flood and drainage facilities; non-residential senior centers; non-residential centers for the handicapped, such as a sheltered workshop; neighborhood facilities designed to provide health, social, recreational or similar community services for residents of a particular target area or neighborhood; street improvements, and ramping for the handicapped; public facilities other than water and sewer that meet certain requirements; and acquisition of real property necessary to install or improve public facilities.

Selection Criteria

Applicants will compete for a total of 1,000 possible points in the ranking system. The ranking system will be divided into two parts: (1) Community Needs and (2) Project Evaluation.

Community Needs. (325 points) This area will examine the characteristics of the community itself to help assume that needy localities are funded. Applicants whose figures are the highest for six of the seven need indicators will receive the maximum number of points. Scores for other applicants will be determined by calculating what percentage their statistics are of those of the applicant with the highest amount, and then multiplying this percentage by the maximum score.

Community Need Factors:

- Fiscal Distress Indicator (per capita taxes per capita income)	75 pts.
- County Unemployment Rate	50 pts.
- Number of Poverty Persons	50 pts.
- Percent of Poverty Persons	50 pts.
- Number of Substandard Housing Units	25 pts.
- Percent of Substandard Housing Units	25 pts.
- Number of Houses Built Pre-1940	25 pts.
- Percent of Housing Built Pre-1940	25 pts.

Project Evaluation. (675 points) The factors are intended to ensure that the best designed and most effective projects will be funded. Specific project evaluation criteria will be used in the areas of economic development, public facilities, and housing. Applicants may propose multiple activities which will be ranked separately in each of the problem areas. Points in each of the problem areas will be awarded on the following basis:

Maximum Impact	350 Points
Moderate Impact	200 Points
Minimal Impact	100 Points
Insignificant Impact	0 Points

Project Evaluation Factors:

- Impact on Community Needs (350 points)
  - o economic development
  - o public facilities/services
  - o housing

- Benefit to Low and Moderate-Income People (200 points)
- Resource Leveraging (100 points)
- Energy Conservation (25 points)

Grant Amounts. Illinois has proposed different grant maximums based on population ranges. The state notes that the ceiling amount for a local project is not always appropriate. In determining appropriate individual grant amounts, the State will consider population factors, needs, type of activities, applicant's ability to carry out the proposed program, and previous funding levels. Listed below are the grant maximums.

Population	Grant Maximum
2,500	$400,000
2,501 - 10,000	$600,000
10,000 - 50,000	$750,000

Economic Development/Natural Disaster Set-Aside.

The state will reserve five percent of its block grant funds in order to respond to "severe economic problems, unique job creation opportunities for low and moderate income people, and natural disasters." A grant ceiling of $250,000 has been placed on awards from the "Economic Development/Natural Disaster Set-Aside." Illinois has established a detailed procedure for applying for the set-aside funds. While certain thresholds must be met in order to apply for the funds, the state will use similar competitive program procedures for distributing the set-aside funds.

Other Provisions

Definition of Low-Moderate Income Citizens. Eighty percent of median family income.

Grants Management Plan. Illinois has instituted a new and comprehensive "grants management plan which seeks basic information on the project. The plan seeks data on the staff, the fiscal contact person, the name of the engineer running the project if one is available, a list of consultants whose services will be used on the project, and the identification of any citizen advisory committees.

Citizen Participation. The citizen participation plan will be part of the grants management plan plus the state will also require that one public hearing be held on the proposed project.

Housing Assistance Plan. Illinois has formally replaced the HAP with a one page "Housing Needs Form", which is an overview of a community's housing stock. This will include data on the housing needs of the community, the condition of the existing housing stock, an overview of special population groups, a brief analysis of the community's public housing, and plans for addressing the locality's housing problem. The "Housing Needs Form" will only be required for housing applications.

Role of Substates. The six state regional planning commissions will provide technical assistance and training to localities applying for state CDBG funds. The state will contribute a portion of their 107 funds to the technical assistance effort.

Estimate of Administrative Costs and Staffing. The state expects to use the full two percent to administer the program in FY 82. The state will staff the program with approximately 12 full time professionals. It is important to note that the Department of Commerce and Community Affairs has sub-contracted with the Illinois Environmental Protection Agency to perform the local environmental reviews and engineering approvals.

Environmental Review Procedures. In an effort to save time and manpower the state has implemented an environmental review pre-certification. The pre-certification was developed by the Department and consists of a checklist which easily determines whether the locality needs to perform an environmental review.

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KENTUCKY

ADMINISTERING AGENCY: Office of Community Development
Department of Economic Development

STATE CDBG ALLOCATION: $30,639,000

PREVIOUS MULTI-YEAR COMMITMENT: $14,594,023

Program Preparation

The Commonwealth of Kentucky was one of two states selected in HUD's Small Cities Demonstration Project in FY 81. Therefore, the state had an excellent opportunity to gain some experience and prepare for the actual administration of the State CD Block Grant Program in FY 82. Kentucky retained their Policy Advisory Committee and Technical Advisory Committee to help them design the State CD Program for FY 82. The Department also sponsored a series of workshops, throughout the state for local government officials to explain the new program.

Program Design

The 1982 Kentucky Small Cities CDBG Program has adopted the following goals and objectives to promote community and economic development.

1) To improve local economies and the economic well being. The state will encourage private investment, discourage the outmigration of business and help maintain and improve existing or growing economic centers.

2) To improve the condition of housing and expand fair housing opportunities especially for persons of low and moderate income. The state will encourage the rehabilitation of existing housing units, the creation of new housing units including adaptive reuse of suitable structures, and the and purchase and preparation of sites for construction of new housing units for low and moderate income persons. Another objective of the program will be to eliminate blighting conditions in residential areas through demolition, code enforcement, and related activities.

3) To provide public facilities to eliminate conditions which are hazardous to public health and safety and which detract from further community development. Kentucky will seek to improve existing public facilities and provide new facilities when warranted by recent population growth, or when essential needs exist.

Under the Kentucky State CD Program, communities will be allowed to submit applications in three categories:

1) Economic Development
2) Housing
3) Public Facilities

A Special Projects Fund will be available for innovative or emergency activities.

Funding Allocation. While Kentucky will not fund any new multi-year grants in

FY 82 or FY 83, they do intend to honor HUD's previous multi-year commitments. This reduction for multi-year commitments leaves approximately $15,432,197 available for distribution among the three program categories. The funding allocation is listed below:

Program Category	% of Total Allocation	Total Dollars Available
Housing and Public Facilities	55%	$8,487,708
Economic Development	35%	5,401,269
Special Projects	10%	1,543,220

Note that the dollar split between Public Facilities and Housing Projects will be determined by the proportionate volume of CDBG dollars requested by applicants scoring at least 700 in those program categories.

Grant Amounts. Kentucky has established separate grant amounts of different program categories. For instance, Housing and Public Facilities projects will have a grant ceiling of $500,000 while Economic Development projects will be limited to $750,000. There will be no limits in the Special Projects category.

Finally, applicants are free to apply for several Housing or Public Facilities projects as long as the total amount requested does not exceed $500,000. In turn, applicants may apply for a number of Economic Development projects, but the total amount of dollars cannot exceed $750,000.

Selection Criteria

The selection process will be competitive within the three program areas with different rating criterion. For instance, only Public Facilities applications will compete with other Public Facilities applications. Listed below are the separate selection criteria:

Selection Process for Housing and Public Facilities Projects. In the case of Housing and Public Facilities Projects, applicants are free to choose the program area(s) in which they wish to compete. Applicants are free to apply for these funds at one time during the year. The point system is briefly described below:

Categories		Maximum Points
o Community Need (To be determined by the State. Includes data on the percentage of poverty and the number of poverty persons.)		150 points
o Project Need		300 points
o Project Effectiveness		200 points
o Reasonable Costs		150 points
o Financing		200 points
	Total	1000 points

In each category, qualifying words are used for comparison of each application, (e.g., substantial, moderate, minimal, insignificant).

Selection Process for Economic Development Projects. Communities can apply for Economic Development grants during an eight month period between March 15, 1982 and November 1, 1982. This lengthly application period is intended to give communities time to fully develop economic development opportunities and resolve any difficulties. However, as opposed to the Housing and Public Facilities grants, where applicants will be allowed to have several grant applications in the review process simultaneously, applicants will not be allowed to have more than one economic development application in the review process at any one time.

All Economic Development proposals must include the following principles: (1) the retention or creation of permanent employment, (2) the use of private investment and (3) the maximum utilization of funds through recapture when appropriate. The more detailed components of the selection criteria are listed below:

1) Permanent jobs created or retained:
   - o the number of types of jobs
   - o the certainty of jobs as supported by letters of commitment from the prospective employer
   - o the ratio of CDBG dollars per job.

2) The stimulation of private capital investment:
   - o a letter from the involved private parties which provides an assurance of commitment to invest if CDBG dollars are available
   - o an indication of the amount and certainty of the private investment
   - o the ratio of committed private dollars to CDBG funds

3) The maximization of the CDBG funds:
   - o evidence that the CDBG funds will be recaptured through loans, revolving accounts, lease back arrangements, or sale,
   - o the CDBG funds are leveraged in conjunction with other local, state, or federal funds.

Approximately two weeks after the application is received, the state will set up a meeting to discuss the project with the applicant. Staff review will be continuous. Meetings with applicants and requests for additional data may occur several times during review. The staff will seek information on the nature of the public/private commitment, the ratio of leveraging, the success of the project, and the need for CDBG assistance.

After the procedure has been completed, the staff will submit the proposal to the Project Selection Committee which is made up of experts in the fields of industrial and economic development. The panel will meet on a monthly basis to review Economic Development proposals. State staff will be available to answer specific questions about individual projects. The Committee will compare projects based on the selection criteria and make recommendations to the Commissioner of the Department of Economic Development.

In some instances a project will be eligible for partial funding. In those instances, the Committee will negotiate with the applicant to ascertain whether the project can be reduced in size.

Economic Development funds will be distributed during three allocation periods. If funds remain after the third period, they will be pooled for stand-by applications in housing and public facilities.

Selection Process for Special Projects. The Commonwealth of Kentucky has set aside approximately ten percent of its state CD allocation or $1,543,000 for Special Projects. This category includes two types of projects:

1) Emergency Projects which pose an immediate threat to the health and safety of its citizens, or
2) Innovative Projects, which were unanticipated at the regular deadline date, depend upon immediate funding, and includes unique financing mechanisms.

To apply for such funds, the community must submit a letter to the Department with their request. The state will review the request and meet with the applicant to discuss the project. The community will learn of the state's decision no more than two weeks after the meeting. These funds can be applied for at any time.

Other Provisions

Citizen Participation. One public hearing must be held by the community before the application is submitted to the state, and another public hearing must be held prior to the execution of the agreement with the state.

A-95 Review. The State Clearinghouse will conduct the A-95 review of applications. Regional Clearinghouses will review the CDBG applications in their areas, but this review is for comment only, not approval. No funding decisions will be made until all Clearinghouse comments are considered or 45 days have elapsed.

Role of Substate Districts. The Area Development Districts in Kentucky played a major role in the design of the State CDBG Program. The state has provided $300,000 to the substate districts from their administrative fund to assist local jurisdictions with the State CDBG Program. The Department of Economic Development will contract with the ADDs to (1) provide technical assistance and training, (2) assist in the monitoring of CDBG recipients, and (3) act as a broker for the state in solving local problems in the administration of the program.

Estimate of Administrative Cost and Staffing Needs. The state will use approximately 2% or $300,000 to administer the program. As mentioned previously, the state plans to appropriate another $300,000 to the ADDs to help administer the program. Approximately, nine to eleven full time employees will be assigned to administer the program.

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Office of Community Development
Capitol Plaza Tower
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502/564-2382

MAINE

ADMINISTERING AGENCY: State Planning Office

STATE CDBG ALLOCATION: $10,090,000

PREVIOUS MULTI-YEAR COMMITMENTS: $4,298,000

Program Preparation

With the assistance and guidance of an ad hoc Community Development Advisory Committee, the Maine State Planning Office has developed a program which is somewhat similar to the HUD administered program.

Program Design

The State of Maine will try to meet the following three objectives in administering the State Community Development Block Grant Program: (1) the provision of decent, affordable, energy efficient housing for low and moderate income residents; (2) the creation of quality jobs and opportunities for low and moderate income residents; and (3) the revitalization of deteriorated residential and commercial areas.

In meeting these objectives, the state set up broad guidelines to administer the program. First, the state will distribute the funds competitively and structure the program so that no individual area of activity - housing, economic development, public facilities - is favored over another. The state will set up an extensive technical assistance fund to encourage smaller, rural communities to participate in the program and finally, the grantees will be encouraged to leverage community development grants with other public and private resources.

The Maine State CD Program will be divided into three categories:

> Reserved Grants. Approximately $4.2 million will be set fund communities with previous multi-year commitments.
>
> General Competition Grants. Nearly $5.69 million will be used to fund projects which are similar to projects funded under the HUD administered program.
>
> Technical Assistance Grants. Approximately $150,000 will be available for CDBG technical assistance grants.

The General Competition Grants and the Technical Assistance Grants are described in detail below:

General Competition Grants.

Most of the state CD funds will be allocated to the General Competition Account for projects in housing, public facilities and economic development. Although the grant program may be structured similarly to HUD's program, the scoring system has been significantly revised to eliminate the previous bias against economic development and public works grants.

The paperwork requirements for the grant have been considerably reduced. In order to apply for the grants, communities are asked to submit the following data:

(a) A statement of overall community development objectives which includes a description of the housing, economic development and capital improvement needs of the community.

(b) A description of the proposed program and its projected impact. This would include a budget, a description of other resources and a management plan.

(c) A statement on how the project will benefit low and moderate income residents or the degree to which the project will prevent or eliminate blight.

(d) A certification that the views of the communities' citizens have been solicited and reviewed in making the proposal. This includes evidence that the application has been approved by the community's governing board.

Grant Amounts. Projects can be single activity or multi-activity, based upon the problem to be addressed. Multi-activity projects should involve activities which are mutually related, either by function or by geographic area. The maximum grant amount will be $400,000 with no minimum grant size. Project length cannot exceed 18 months, however a limited number of two-year grants will be available. Multi-year grants are available up to $1.6 million for 18 months.

Selection Criteria

The selection criteria for the General Competition Grants will be judged and scored by the State Planning Office staff with the assistance of Maine Housing Authority staff and State Development Office staff. Also, a team of local officials, selected by the Maine Municipal Association will be invited to review the process and to submit their comments to the administering agency.

The scoring system for the General Competition Grants includes certain threshold determinations and examines the following three factors: (1) Community Need, (2) Project Impact and (3) Benefit to Low/Moderate Income People or the Prevention or Elimination of Substandard Conditions.

(1) Community Need (20 points).

- Number of people under poverty level	10
- State's community distress rating	10

(2) Impact (60 points).
Applications will be scored within functional areas in order to rate their impact: housing, economic development, public facilities.

- Severity of problem	20
- Project effectiveness	20
- Leveraging	10
- Management plan	10

(3) Benefit to Low/Moderate Income People
Prevention or Elimination of Substandard Conditions 20

Technical Assistance Grants.

Maine will allocate $150,000 in Technical Assistance Grants to regional non-profit organizations, such as regional planning commissions, for the purpose of assisting communities unfamiliar with the State CD Program. Of the $150,000 available in the fund, $50,000 will come from the CD program and the state will contribute $100,000 to the program.

Grants will be awarded competitively on an annual basis. Grant amounts will be set by region through a predetermined formula involving population and number of communities. In order for the organization to apply, it must describe the strategy to be used and provide evidence of support from local officials. Technical assistance activities should include: holding regional workshops on the program for local officials, making a preliminary inventory of all potential CD projects, assisting interested communities in surveying needs, identifying CD strategies, coordinating area resources in advance of CD application, reviewing community applications for adequacy and completeness, and assisting successful new applicants in starting up their programs. Applications will be reviewed and assessed by the State Planning Office staff.

Other Provisions

Citizen Participation Requirements. The State of Maine will require that each community applying for state CD funds, hold one public hearing on the proposed project. The certification must include verification that the views of low and moderate income citizens are solicited during the citizen participation process.

Housing Assistance Plans. The state will not require that a HAP be submitted under the program.

Role of Substates. The state has appropriated $150,000 over a two year period to fund the substate districts within the state to provide technical assistance to local jurisdictions. Under the program, the state will contract out with the regional planning organizations, to provide technical assistance and training. This could include the provision of basic information on the CD program, application assistance, and an assessment of the community's needs.

Estimate of Administrative Cost and Staffing Needs. Maine plans to allocate the full two percent for the administration of the program. The state also plans to run the program with a staff of five full-time professionals.

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MASSACHUSETTS

ADMINISTERING AGENCY: Executive Office of Communities and Development

STATE CDBG ALLOCATION: $26,542,000

PREVIOUS MULTI-YEAR COMMITMENT: $11,542,000

Program Preparation

In preparation for the implementation of the State CDBG Program, the Executive Office of Communities and Development, the administering agency, established a Small Cities Advisory Task Force which included representatives from local governments as well as from community development and planning interests. Also, members of the State Legislature were invited to attend the meetings of the Task Force.

As the program is finalized, the state has planned a series of six technical assistance training sessions throughout the state to explain the new program in detail. Approximately, 300 local officials attended the one day sessions.

Program Design

Massachusetts will run a competitive State CD Program which is significantly different from the HUD administered program. While the program requires that the activities by communities must meet at least one of the three national objectives the state has established the following five preliminary objectives for the program:

- Support projects which will have a substantial and identifiable impact and which will respond to the perceived needs of residents and/or businesses in a defined area.
- Support communities which have developed comprehensive solutions to their CD problems, and which have the capacity to implement those solutions.
- Encourage reinvestment in distressed neighborhoods in order to stabilize the neighborhoods and avoid displacement.
- Stimulate economic development which will assist in the creation or retention of permanent job opportunities and expansion of the community's tax base.
- Encourage communities to maintain open policies towards both subsidized and private market housing to ease restrictions on the development of affordable housing in general.

Using the national and state objectives as a guide, applicants can submit proposals under one or both of the following two major headings, as long as only one complete application is submitted by the community.

(1) Neighborhood Preservation. The stabilization of declining neighborhoods by addressing the problems which influence neighborhood vitality. economic growth and development which creates or retains jobs in the community and strengthens the local economy

(2) Economic Development/Commercial Revitalization. The stimulation of economic growth and development which creates or retains jobs in the

community and strengthens the local economy.

Eligible activities in both categories include: property acquisition, improvements, and disposition; private housing rehabilitation loans, grants, or interest write downs, housing counseling, and historic preservation; rehabilitation of existing public housing or acquired property to provide permanent public housing units or residential facilities; public infrastructure improvements to leverage private investment; acquisition, construction, or rehabilitation of commercial or industrial facilities, and appropriate real property improvements; business development assistance and loans; and activities in support of the development of low or moderate income housing including clearance, site assemblage, provision of site and public improvements and certain housing preconstruction costs.

Selection Criteria

Massachusetts will retain the two-step application process used under the HUD administered program, but it will be considerably shorter and simpler. During the pre-application phase, communities will be asked to briefly (seven typewritten pages) provide information covering the five following areas: justification of need, project description, project impact, management capacity, and a housing policy statement.

Communities will compete in the pre-application phase based on the individual merit of their proposals, as well as on how they compare with applicants proposing similar projects. For example, Neighborhood Revitalization proposals will compete against other Neighborhood Revitalization proposals and Economic/Community Development proposals against other Economic/Community Development proposals. Only those cities and towns which have successfully completed the pre-application phase will be allowed to submit final applications

The final application will require the same type of information but in greater detail. The format for final applications consists of seven categories: justification of need, project description, local commitments, project impact, management capacity, housing policy statement and certifications to meet federal and state requirements.

During the final application phase, proposals will receive a numerical score that will be used in determining the eventual grant recipients. The numerical score will measure:

Overall Community Need	150 points
Project Impact (including the Community's ability to implement the project and housing policy practices)	300 points
Amount of Local Commitment	50 points
	500 points

Grant Amounts. Grants will range from a minimum of $100,000 to a maximum of $700,000. Communities may apply for funding for one or two years, making the highest total grant award possible $1,400,000, over a two year period. Considering previous multi-year commitments, the Commonwealth expects to award 20 to 25 new grants.

Other Provisions

Housing Policy Statement. Applicants are required to prepare a Housing Policy Statement which includes the community's subsidized housing policies and plans for increasing the availability of affordable private market housing. The statement will be required for all funding requests regardless of whether the community is applying for economic development or housing related activities.

Citizen Participation Plans. While the citizen participation requirements have been reduced from the requirements under the HUD administered program, the state will require applicants to hold a "community meeting" before a pre-application is submitted and a public hearing before a final application is submitted.

Definition of Low-Moderate Income. Families whose incomes do not exceed 80% of median family income.

Financial and Administrative Requirements. EOCD will be adopting the regulations and guidelines promulgated by the federal government in OMB circulars A-87 and A-102.

Use of Consultants. The state has established a comprehensive set of guidelines on the use of consultants in the State CD Program. Of noteworthy interest is the limit placed on the amount of state CD money which can be used for consultants. A maximum of $2,000 is allowed for this purpose. Any cost over $2,000 will have to be paid by the community from sources other than Small Cities funds.

Joint Applications. Joint applications from two or more communities will be encouraged by the state's administering agency. However, the applicants must designate a "lead" community. The grant maximum for the joint aplication will be $700,000 per year.

Loans to "For Profit" Entities. Due to modifications in the federal statute, the State is allowing program funds to be used to benefit profit making enterprises provided that such loans are clearly in support of the public policy objectives of the Small Cities Program. These loans will only be allowed in relation to Economic Development/Commercial Revitalization projects. In order for private for-profit entities to receive loans, they must meet the following criteria:

- There exists a proportionately larger private financial commitment to the project than the public financial commitment requested.
- Reuse of proceeds derived from the repayment of the loan are clearly defined.
- Documentation exists that conventional or other financing is not available and/or that prevailing interest rates would render the proposed project financially unfeasible.
- The project benefits must directly assist low and moderate income people.

Role of Substates. The regional planning agencies in Massachusetts played a major role in the design of the State CDBG Program, however the issue over their involvement in the actual program will be determined by the individual localities.

Estimate of State Administrative Cost and Staffing Needs. The state will probably use the full two percent in administering the program. Also, twelve full-time professionals will be assigned to administer the program.

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Executive Office of Communities and Development
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NEBRASKA

ADMINISTERING AGENCY: Department of Economic Development/Division of Community Affairs

STATE CDBG ALLOCATION: $12,101,000

PREVIOUS MULTI-YEAR COMMITMENTS: $3,343,000

Program Preparation

In preparation for the State Community Development Block Grant Program, the Department of Economic Development has worked closely with the Governor's Block Grant Task Force and the locally oriented Small Cities CDBG Committee to establish a fair and equitable distribution system. The Department has also sponsored a series of regional meetings to seek comments on the proposal.

Program Design

Nebraska's proposal consists of six competitive development finance programs for eligible local applicants: Community/Neighborhood Revitalization, Water and Wastewater Systems, Industrial Development, Special Projects, Community Development Planning and Programming, and Community Development Capacity Building.

The State's broad program goals reflect the diversity of community development needs: to encourage the most of limited funding; to target areas of greatest need; to minimize competitive grantsmanship; and to award more, and therefore smaller grants.

The six development finance programs are listed below:

Community/Neighborhood Revitalization.

This program will provide grants to eligible communities for revitalization activities and assist them in developing and implementing a wide range of neighborhood revitalization activities.

Eligible activities include rehabilitation of private property (residential and commercial), code enforcement, historic preservation, property acquisition and disposition, relocation, clearance activities, water system improvements, wastewater collection facilities, street improvements, solid waste disposal facilities, planning activities and economic development activities.

Applicants will be competitively ranked and may receive a maximum of 200 points 100 points for Community Need Factors and 100 points for Target Area Need Factors. Community Need Factors include the following: population change, per capita income, absolute number of poverty persons, percent of poverty persons, absolute number of substandard housing units, percent of substandard housing units, absolute number of housing units built before 1940, and percent of housing units built before 1940.

Target Area Need Factors include: concentration of low-income families, the extent of blighting conditions, and urgent needs.

Approximately $7,502,620 or 62 percent of the funds will be available for these grants. Of that amount, approximately $3,343,000 is reserved for existing multi-year commitments. The maximum grant amount will be $350,000 for one year. The State of Nebraska will not fund any multi-year projects.

Water and Wastewater Systems.

This program is intended to supplement community financial resources in meeting water and wastewater system needs. Non-entitlement cities and counties which receive a priority rating from the Nebraska Department of Health or Department of Environmental Control are eligible to apply for the grants. Eligible activities include water wells, water storage, water distribution system improvements or new construction, and wastewater collection system improvements or new construction.

The application procedure is six-fold: (1) the Department of Health develops a priority for water systems; (2) the Department of Environmental Control develops a priority list of wastewater systems; (3) communities are given one year to apply; (4) the community is required to charge reasonable user rates; (5) water meters are required; and (6) consolidation of systems, where appropriate, receive a priority rating.

Applicants will be competitively ranked and may receive a maximum of 300 points:

Community Needs Factors	100 points
Priority Rating Factors	150 points
Project Impact Factors	50 points

Communities applying for the funds must spend at least one percent of median family income for debt service on improvement of system for which funds are being requested.

Approximately $2,178,180 or 18 percent of the funds will be allocated to this function. There will be a maximum grant limit of $350,000.

Industrial Development.

In an effort to create jobs and diversify the economic base of Nebraska, the state has established the Industrial Development Program. It is intended to promote local economic development through development and promotion of industrial sites and buildings.

The program provides deferred loans to assist in the financing of industrial site development and industrial buildings which can be expected to result in creation of new jobs in distressed communities.

Eligible activities include the payment of interest costs (for up to three years) on money borrowed to develop an industrial site or to construct an industrial building on land owned by a municipality, county, or local development corporation.

Eligible applicants are communities under 50,000 population that are eligible for the Urban Development Action Grant (UDAG) program. Applicants will be competitively ranked and may receive a maximum of 250 points - 100 points for Community Needs Factors and 150 points for Project Impact Factors.

A match requirement states that local development corporations would be responsible for payment of the loan principle, taxes, and marketing costs. By providing deferred loans, it is believed that new jobs in distressed (UDAG) areas will result. To apply, local governments submit on behalf of local development corporations. Merits to be considered are the potential of the community to carry out a successful industrial development program, site suitability, and the impact funding will have in alleviating economic distress.

Approximately $726,060 or six percent of the funds will be available for the projects. No maximum or minimum funding level has been established. Funds would be provided for a maximum period of three years. Upon sale or lease of the industrial site or building, the full amount of funds provided through the program would be returned to be made available to other communities.

Special Projects Fund.

In the Nebraska program approximately $847,070 or seven percent of the funds will be set aside for special projects to confront special needs of health and safety affecting low- and moderate-income people. Eligible applicants are non-entitlement municipalities and counties. Funds will also be available for special developmental opportunities. A maximum grant amount of $300,000 is available for applicants

Applicants will be rated and scored on the following six Project Impact Factors: (1) Benefit to low- and moderate income families, (2) Aid in the prevention of slums or blight, (3) Meeting an urgent need, (4) Cost benefit to the community in terms of impact on the local financial base, (5) Innovative solution to a CD need or a unique opportunity for CD, especially in relation to housing and economic development, (6) Leverages private sector investment or generates other financial resources.

Community Development Planning and Programming.

Approximately 2.5 percent of the funds or $302,525 have been set aside to assist communities in the preparation and/or implementation of specific plans and programs. Eligible applicants are non-entitlement municipalities and counties, which may in turn subcontract with general purpose governments (e.g., development districts and councils of government), and non-governmental organizations (e.g., development corporations, chambers of commerce, housing authorities and community action agencies). All subcontractors are subject to approval.

Eligible activities are plans and programs that identify needs/solutions and are implemented in the areas of development plans/studies, such as comprehensive plans and special plans (e.g., land use, housing, community facilities, transportation, business district development and/or improvement, population, economic base, and environmental); implementation plans/ programs (e.g., capital improvements, zoning regulations, subdivision regulations, economic action plans, housing/building codes); and community development capacity building, e.g., implementation and/or administration of plans/programs — start-up funds for one year of staffing, but not to supplant existing staff, and development of administrative procedures and/or training.

Applicants will be competitively ranked and may receive a maximum of 225 points — 100 points for Community Needs Factors and 125 points for Project Impact Factors.

Community Development Capacity Building Fund.

Approximately 2.5 percent of the funds or $302,525 has been reserved to enhance the capability of communities to determine and meet their CD needs through technical assistance provided by the regional councils. The match requirement is 25 percent of the local share. In order to participate in the program, a local government must submit an application on behalf of a regional council in their district. Only one regional council in each of Nebraska's nine districts will receive funds under this element of the program. Each district in Nebraska will receive funds on a formula basis totaling (a) base amount per district - $11,111, (b) amount per region served - $4,000, and (c) amount per local government served - $164.04.

Eligible activities include: (1) continuation of the substate activities of the Nebraska Rural Development Program, analysis of development needs in the areas of community facilities, housing and economic development and encouragement of coordination among agencies in meeting those needs, and (2) provision of technical assistance to communities to analyze and implement programs meeting identified needs including, but not limited to, preparation of applications for development finance programs and technical assistance in administering such programs.

Other Provisions

Citizen Participation, Housing Assistance Plans, A-95 Requirement. The State of Nebraska will not require A-95, housing assistance plans, or a citizen participation plan.

Estimate of Administrative Costs and Staffing Needs. The state intends to appropriate the maximum two percent to administer the program, but is uncertain whether they will use the full amount. The Division will use six full time employees to administer the program.

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Lincoln, NE 68509
402/471-3111

NORTH DAKOTA

ADMINISTERING AGENCY: Federal Aid Coordinator Office/State Planning Division
STATE CDBG ALLOCATION: $5,704,000
PREVIOUS MULTI-YEAR COMMITMENTS: $988,000

Program Preparation

While the State Planning Division will directly administer the State CDBG Program, two locally oriented committees will play a major role in the selection of the potential block grant recipients. When the state announced that they were going to administer the State CDBG Program, the governor established a Policy Advisory Committee to assist the state in preparing for the program. The committee assisted the Division in developing the applications, establishing the procedures for the program, and formulating the policies of the program. The state also intends to involve the two local government committees in the selection of the grant recipients. Finally, the state sponsored two public hearings with local officials to solicit comments on the new program.

Program Design

Goals and Objectives for the Program. In the formulation of the North Dakota State CD Program, the State Planning Division established the following objectives:

o To encourage local governments to use the entire array of community development activites funded through the CDBG program.
o To promote the coordination of CDBG with other state and federal programs.
o To encourage the use of CD dollars as a lever for private sector involvement.
o To target resources to those applicants with the greatest amount of need and benefit to low and moderate income persons.
o To simplify the CDBG goals, objectives, and procedures for local governments.
o To contribute to the timely execution of CDBG programs through better technical assistance and administration.

Areas of Need. Under the North Dakota State CDBG Program, applicants can apply for funds to address a community development need in one of the following three areas:

(1) Housing.
(2) Local economic conditions which principally effect persons of low and moderate income.
(3) Deficiencies in local infrastructures which effect the health and safety of the public or some other essential need.

There will be no formal percentage of funds allocated to the three major categories.

In deciding which program area to apply for, an applicant should address its needs through its proposed activities and those activities which represent at least a majority of the funds requested. While the project may consist of one or several activities, those other activities must be incidental to and in support of the principal activity. In applications proposing more than one activity, the entire program will be rated as a whole and not separately. Funds allocated to the recipients must be sufficient to complete the program within twelve to eighteen months.

In an effort to fund a larger number of small communities, the state will establish three separate funds for communities based on their population size. The three "pots" of money will be set up according to the following population ranges:

1980 Population Ranges	Total # of Eligible Applicants
0-500	257
501-5000	118
5001 and over	41

The state allocation between the three ranges will be based on the percentage of poverty persons statewide in each population range and with the previous multi-year commitments subtracted from the communities of "5001 and over" allocation. The resources will be distributed in the following manner:

Population Range	% of Persons in Poverty Statewide	Total Dollar Allocation
0-500	23	$1,285,682
501-5000	40	$2,235,968
5000 and over	37	$1,080,270

Grant Amounts. The state will establish a different grant ceiling for each population range.

Population Range	Grant Ceiling
0-500	$250,000
501-5000	$375,000
5001 and over	$500,000

Application Procedure. In an effort to shorten the previous HUD application process, the State Planning Division has shortened the procedure to one submission. In order to apply, the locality must submit a community needs assessment, a strategy to address the identified needs, a cost analysis of the CD strategy, a determination of benefit to low and moderate income persons, an analysis of the community's housing stock in terms of condition and quantity, relevant maps of the target area, and a certification of compliance signed by members of the governing board.

Selection Criteria

Under the North Dakota rating and ranking procedure, localities are asked to submit their applications to the State Planning Division for an initial review and ranking of the project. The Division will screen the applications for completeness and check to make sure that certain standards are maintained. For instance, the Division will examine the community's CD strategy, perform a threshold check for environmental factors on the project, and examine the completeness of the applicant's previous funding commitments. The recommendations of the State Planning Division will then go to the Policy Advisory Committee for final review. The applications will be sorted according to population size group and major activity: (1) Housing and Related Conditions (2) Local Economic Development, and (3) Public Infrastructure Improvement. The applications will then be rated under the selection criteria established by the state and will be re-examined by the Policy Advisory Committee for its final review. These recommendations will then be submitted to the Governor for approval.

After the minimum requirements are met, the state will look at the "Program Impact Factors" of the proposed program. The evaluation of program impact will be based upon how well proposed activities address the documented needs. The relationship between the needs and the proposed activities must be described in specific, measurable terms. In evaluating program impact, consideration will be given to the amount of funds requested, the results to be achieved, previous actions taken to address the identified needs and the relationship of the program to the eligible activities selected.

The variables for the "Program Impact Factor" differs with each program area. The total amount of points in each area will total 250 points. All points addressing the same major area will be evaluated in terms of impact on the identified major subject area, as follows:

(1) The project will have substantial impact;
(2) The project will have moderate impact;
(3) The project will have minimal impact;
(4) The application does not meet the minimal impact standards and will receive points in this category.

A listing of the "Program Impact Factors" in each area is listed below:

Housing and Related Projects

o Housing Strategy - (50 points).
The housing needs of the community have been identified and documented and the proposed activities address, to some extent, the identified needs.

o Costs - (25 points).
This variable examines how reasonable the cost of rehabilitating a unit as compared to other projects.

o Concentrated Effort - (20 points).
This factor analyzes how other activities integrate with and support other activities to alleviate the housing problem.

o Targeting - (15 points).
Looks at how the project is directed toward a distressed area or low to moderate income persons.

o Expanded Opportunity - (15 points).
Assesses how the proposed activity expands housing opportunity for low and moderate income families.

o Low and Moderate Income Benefit - (125 points).
Examines how the project will benefit low and moderate income families.

Local Economic Development Conditions.

o Local Economic Development Strategy - (50 points).
The applicant has documented economic development needs and has prepared a strategy to address the needs.

o Costs - (25 points).
Examines the cost of the project and compares them with the costs of similar

programs.

o Redevelopment Area - (25 points).
In North Dakota, a redevelopment area is defined as an area in which buildings, by reason of age, obsolescence, or physical deterioration, have become economic or social liabilities; in which such conditions impair the economic value of the area; in which it is difficult and uneconomic for individual property owners independently to undertake to remedy such conditions; and in which it is necessary to create, with proper safeguards, inducements and opportunities for the employment of private investment and equity capital in the rehabilitation of such buildings. This variable examines how the proposed activities will improve economic conditions in the designated redevelopment area.

o Concentrated Effort - (25 points).
Assesses how the application integrates with and supports other activities.

o Low and Moderate Income Benefit - (125 points).
Examines how the project will be directed toward low and moderate income persons.

Community Infrastructure Improvement Conditions.

o Community Infrastructure Strategy - (50 points).
The community infrastructure needs have been identified and a strategy has been designed to try to meet those needs.

o Concentrated Effort - (25 points).
The activities integrate with other efforts to alleviate the problem.

o Other Efforts - (25 points).
Examines the extent to which the community has investigated other sources of funding and documented previous efforts in resolving the problem.

o Costs - (25 points).
Looks at the reasonableness of the cost of the project as compared to similar projects.

o Low and Moderate Income Benefit - (125 points).
Assesses how the project will assist low and moderate income citizens.

Other Provisions

Citizen Participation Requirement. There are no specific CP requirements in the State CDBG Program but North Dakota state law authorizes the mayor or governing board of a community to approve any local project and to publish any plans for a project beforehand.

Role of Substates. The state has not formally established any role for substate districts in the program but it does not preclude a locality from working with substate districts in the provision of technical assistance or the administration of the grant.

Site Visits. Site visits will be made at the discretion of the state. The visits will be made to verify data and to acquaint the state staff with the community.

Housing Situation Analysis. The housing analysis will be required when the community proposes a housing project. The applicant will be required to analyze the community's housing stock in terms of condition and quantity.

Definition of Low and Moderate Income Families. Incomes do not exceed 80 percent of the median income of the families residing in non-metropolitan areas.

Estimate of Administrative Costs and Staffing Needs. The state will use the two percent maximum to administer the program. The state also expects to staff the program with the equivalent of four full time professionals.

STATE PROGRAM CONTACT:

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State Planning Division
17th Floor - State Capitol
Bismarck, North Dakota 58505
701/224-2818

OHIO

ADMINISTERING AGENCY: Department of Economic and Comunity Development, Office of Local Government Services

STATE CDBG ALLOCATION: $44,040,000

PREVIOUS MULTI-YEAR COMMITMENTS: $24,174,000

Program Design

The State of Ohio has elected to administer the State Community Development Block Grant program for FY 1982 utilizing a per capita formula with distress criteria included. Considering Ohio's situation of high unemployment, economic development will be the major objective of the state program. The Ohio program calls for an equitable distribution of available funds to each of the state's 213 eligible non-entitlement communities. In essence each eligible city will be guaranteed an allocation of the state's funds. To insure that communities with greater economic needs receive a greater allocation of funds, the DECD will utilize a distress factor in determining community allocation figures.

Selection Criteria

Ohio will use a formula to distribute the funds in order to maximize the number of communities which can benefit from the program.

Those cities and counties which are highly distressed will receive approximately twice the per capita allocation as less-distressed cities and counties of like population. The population for eligible counties is the total county population minus the population for cities, and prior multi-year HUD commitment cities.

The CDBG allocation is determined for each eligible city or county in the following manner:

1. A per capita allocation is computed by adjusting the state average per capita allocation according to the average of the area's standardized scores on income and unemployment rate. The state average is found by dividing the total amount available for disbursement by the total eligible population.

2. The total allocation for an area is determined by multiplying its per capita allocation by the eligible population.

Cities and counties will recieve funds directly from the state. However, they must hold a public hearing on the proposed use of funds prior to submitting an application to the state. Counties are allowed to make subgrants to villages and townships or may administer the program at the county level.

Imminent Threat Set-Aside. The state will reserve 5 percent of its funds to alleviate imminent threats and emergencies. The emergency funds will be approved by the legislature's State Controlling Board upon the recommendation of the Department of Economic and Community Development.

Other Provisions

Citizen Participation Requirements. Each participating locality is required to hold one public meeting on the proposed community development project.

Housing Assistance Plan. Local jurisdictions are not required to prepare housing assistance plans in order to receive funding.

Estimate of Administrative Costs and Staffing Needs. The state will appropriate the two percent maximum for administrative expenses but will probably use a lesser amount. Because of the large number of participating communities, the state plans to utilize a staff of approximately 28-32 full time employees.

STATE PROGRAM CONTACT: Jane Schoedinger
Department of Economic and Community Development
30 East Broad Street, 25th Floor
Columbus, OH 43215
614/466-7610

SOUTH CAROLINA

ADMINISTERING AGENCY: Division of Community and Intergovernmental Affairs

STATE CDBG ALLOCATION: $26,938,000

PREVIOUS MULTI-YEAR COMMITMENTS: $10,927,000

Program Preparation

The State of South Carolina will administer a competitive program in FY 82. The state established the Policy Advisory Committee and the Technical Advisory Committee in helping to design the program. The state also sponsored a series of workshops to seek comments on the program.

Program Design

In the design of the South Carolina CD Program, the ten Councils of Government (COG's) play a substantial role in the selection of local community development projects. According to the South Carolina plan, local applications are filed with both the COG serving the applicant's region and the Division of Community and Intergovernmental Affairs.

Program Focus. The program has been divided into two categories: (1) Economic Development and (2) Community Revitalization.

Eligible activities in the economic development category include: assistance to new or existing businesses through loans, interest supplements, or other forms of financial assistance; acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings and structures; capitalization of local development corporations and small business investment corporations to initiate a specified project; acquisition of real property for economic development purposes; and construction or extension of public works.

Eligible activities in the area of community revitalization include: rehabilitation of public or private housing units; acquisition, construction, or rehabilitation of certain publicly-owned facilities such as senior centers, neighborhood facilities and parks; street improvements; clearance activities; replacement of housing subsidies for displaced persons; construction or extension of public works such as water and sewer; and preservation or restoration projects.

Selection Process. Once the applications have been received at the COG level, the COGs will begin the rating and ranking process based on the selection criteria designed by the state-local committee. State officials will monitor each rating session at the COG level to ensure uniformity. The COGs will then rank their applications and forward them to the state.

At the state level, CD staff will utilize the same criteria used by the COGs to rate and rank all applications. The state agency will rate all of the number one ranked applications from each COG to determine the application having the maximum impact. That application shall become the state's number one ranked application.

The next round in the competition will be between the remaining nine number one ranked applications and the second ranked application from the region previously funded. The application exhibiting the maximum impact shall be deemed the state's number two ranked application. This process will continue until the available funds are exhausted.

Selection Criteria

In their effort to rate and rank the applications, the COGs and the state will utilize a uniform selection system. Under the system, each applicant is required to address four of the seven selection criteria outlined in the program. Questions are listed under each criteria to facilitate the evaluation of the projects.

1. Benefit to low- and moderate-income persons (in absolute numbers and percent of total population)
2. Supports conservation or expansion of residential properties.
3. Permanent job creation or retention which will occur.
4. Supports creation or retention of industry, business or services.
5. The leveraging of public and private commitments.
6. Elimination or prevention of slums or blight.
7. Resolves a serious deficiency in public facilities affecting the health, safety, or local economy.

Points will be assigned to each of the four selection criteria chosen by an applicant. A maximum of 50 points is available for any one criteria for an overall total of 200 points. Points will be assigned in the following manner:

Level of Project Impact	Pts.
No significant impact on the identified problem	0
Minimal impact on the identified problem	15
Substantial impact on the identified problem	30
Maximum impact on the identified problem	50

All applicants will be separated into their respective categories and ranked.

Grant Amounts and Match Requirement. The maximum grant amount available for all projects is $500,000. There is no minimum grant amount. The applicant is also required to provide a 10 percent program match (5% in kind, 5% cash).

Other Provisions

Definition of Low-Moderate Income Citizens. The low-moderate income index is defined as 80 percent of median family income.

Site Visits. On-site visits are made by state officials to examine projects which are ranked high during the COG review

Citizen Participation Plans. Each applicant is required to hold one public hearing before their application is submitted to the state. Such information must be clearly documented.

Housing Assistance Plan. The state will not require that the applicant submit a housing assistance plan.

Estimate of Administrative Cost and Staffing Needs. The State of South Carolina has allocated $350,000 for running the program. This amount will be split evenly between the state and HUD under the two percent administrative match rule. The state has hired four full time employees and one part-time employee to administer the program.

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Division of Community and Intergovernmental Relations
1205 Pendleton Street
Suite 308
Columbia, SC 29201
803/758-3306

WEST VIRGINIA

ADMINISTERING AGENCY: Office of Economic and Community Development

STATE CDBG ALLOCATION: $18,714,000

PREVIOUS MULTI-YEAR COMMITMENT: $4,482,750

Program Preparation

In West Virginia, the Community Development Division of the Governor's Office of Economic and Community Development has elected to administer the State CD Block Grant Program in FY 82. The State will also sponsor a series of workshops to explain the application procedure to local officials.

Program Design

The West Virginia State CD Program will continue to meet the three national objectives and have divided their program into two major areas with four funtional categories.

A. Development Program
  1) Housing
  2) Community Facilities
  3) Economic Development
B. Comprehensive Planning

Additional details on the two programs are listed below:

Development Program.

Approximately $13,669,000 or 87 percent of the available funds will be set aside for community development grants to eligible units of local government. Under the Development Program, applicants can submit proposals to the state at anytime during the year in three major functional categories - housing, community facilities, and economic development. Proposals determined to be complete shall be reviewed on a quarterly basis.

In designing a local development program, local applicants are required to assess their community and economic development needs and design a program to overcome the identified problems. Funds requested for the project must be spent within a 24-month period.

Development programs may be funded up to $500,000 without a commitment of local funds. Requests in excess of $500,000 up to $750,000 will require a local commitment of funds on a 50/50 basis for funds requested in excess of $500,000. In no case shall more than $750,000 of state CD funds be committed to a single project.

The guide for determining eligibility is found in Section 105 of the Housing and Community Development Act.

Comprehensive Planning Program.

Approximately $187,140 or one percent of the State CD funds will be available on a quarterly basis for comprehensive planning grants. Grants will be made available for purposes of preparing or updating long-range comprehnsive plans and capital improvement programs, and land use regulations. Comprehensive planning programs will be limited to a maximum of $40,000 of state funds, and will require a local cash match of 10 percent.

Local officials can use the planning grant to prepare documents, which provide them with a well-defined statement of policies and objectives for guiding the physical development of their communities. Specific activities which may be funded include the preparation or revision of comprehensive plans, the preparation or updating of local zoning and subdivision regulations or the preparation or updating of long-term capital improvement program and budgets.

Local recipients are specifically prohibited from using planning funds to prepare or administer the State CD Program or any other local planning and code enforcement program.

Other Provisions

Citizen Participation Plans. Applicants must publish a notice providing citizens the with information concerning the amount of funds being requested and the proposed activities to be undertaken; hold at least one public meeting; and give citizens the opportunity to examine the proposal and submit comments which the applicant must take into consideration.

Housing Assistance Plans. HAPs are not required under the state plan. However, an applicant must complete needs assessment, which includes a survey of housing conditions and the identification of housing assistance needs of low and moderate income households.

Administrative Costs. Local administrative costs are limited to 10%.

Role of Substate Districts. Under the West Virginia program, the Regional Planning and Development Councils will have two madatory and two optional roles. First, West Virginia officials have opted to have the regional councils perform the A-95 clearinghouse function to ensure that the proposed CDBG projects are consistent with existing regional and local development plans. As part of the state selection process, each substate district will be asked to establish regional priorities for the applications submitted from their member agencies. The two optional functions relate to the ability and capacity of eligible communities to apply for and and implement CDBG programs. The substate's can provide technical assistance and assist in the actual administration of the program upon the consent of the local jurisdiction.

Estimate of Administrative Cost and Staffing Needs. The state will run the program with one coordinator, four representatives, and one program support person. The staff will also recieve some assistance from the Community Development Division's planning staff.

STATE PROGRAM CONTACT: Fred Cutlip, Director
Community Development Division
Governor's Office of Economic and
Community Development
State Capitol Complex, Building 6, Room B-553
Charleston, WV 25305
304/348-4010

WYOMING

ADMINISTERING AGENCY: Department of Economic Planning and Development

STATE CDBG ALLOCATION: $2,921,000

PREVIOUS MULTI-YEAR COMMITMENTS: $1,155,000

Program Preparation

The Department of Economic Planning and Development designed their program with input from local officials and in discussions with the Local Government Coordinating Committee. The state has also sponsored a series of public meetings to obtain additional comments on the program from local officials.

Program Design

The basic design of the Wyoming State CD Program is quite similar to the HUD administered CDBG program. The state will continue to stress HUD's three national objectives and will retain all of the activities which were eligible under the HUD program. Despite these similarities, the state has made a number of major modifications in the application process, the selection criteria, and the type and size of grants.

Application Process. The Wyoming submission requirements will be quite simple and brief. The state will ask for basic information on the community and a narrative describing the problem to be solved, a description of the proposed project designed to solve the problem, the extent to which the proposal constitutes a completed project, a map of the project location, an expected time frame, a detailed budget, and a resolution from the community's governing board approving the plan.

Type and Size of Grants. Wyoming will only award single year grants for a maximum grant size of $400,000. The state has also placed a match requirement on those applicants proposing revenue-producing projects other than in the area of housing. Communities are required to provide funds for the project in the ratio of one dollar from the applicant to every ten dollars of HUD funds. The match cannot be from state or federal grants.

Selection Criteria

The Planning Division of DEPAD will assume the responsibility for rating and ranking applicants and forwarding their recommendations to the Governor. The final review and announcement of grant recipients will be made by the Governor.

The selection criteria will be made up of four program variables. The maximum total will be 315 points.

1)	Program Assessment	200 points
2)	Integrated Effort	50 points
3)	Fiscal Analysis	40 points
4)	Costs	25 points
		315 points

Additional details on the selection criteria are discussed below.

Program Assessment - 200 points.

Applicants will be asked to document their needs and to describe how well proposed activities address those needs. This may include the amount of funds requested in relation to the benefits of the expenditures, and previous actions taken to address the identified needs.

Integrated Effort - 50 points.

Applicants will be asked to describe how well their projects are combined with other programs to solve a specific problem area. Emphasis will be placed on utilization of funds from other sources to combine with State CD funds.

All points addressing the first two variables will be assessed in terms of impact on the identified major project area as follows:

1) The project will have substantial impact
2) The project will have moderate impact
3) The project will have minimal impact
4) The project will have an insignificant impact

Fiscal Analysis - 40 points.

Applicants must be able to demonstrate a sound fiscal management system. The state will examine:

- The ratio of total bond indebtedness to total bonding capacity (20 points)
- Whether the applicant is levying the optional 1% sales tax or can indicate the issue passed in the applicant's jurisdiction, but not in the county as a whole (10 points).
- Whether the applicant is levying no less than one mill under the maximum mill levy (10 points).

Costs - 25 points.

Administrative costs incurred in carrying out the program must not exceed 15% of the total project cost. However, the state will accept an administrative cost of up to 20% for housing rehabilitation projects. The state will closely examine the applicant's ability to keep administrative costs at an appropriate level.

Other Provisions

Housing Assistance Plan (HAP). A HAP, as defined under the HUD administered program is not required during the application process. However, applicants who include housing in their proposals must submit a brief narrative describing how they arrived at the number and type of housing units involved, and why the type of program was selected.

Citizen Participation. Applicants are required to solicit citizen input through a properly publicized public hearing before submission of an application. The hearing must inform citizens of the dollars available and the range of allowed activities.

Financial Requirements. The State recommends that grantees follow OMB Circulars A-

102 and A-82 procedures or equivalent procedures. The state notes that the State Examiner will be used for all audit procedures.

Role of Substates. There are no plans in the FY 82 program to include substate districts in the selection procedure. Local jurisdictions are free to request their assistance.

Estimate of Administrative Cost and Staffing Needs. Wyoming will utilize the entire two percent administrative money to implement the program($58,420). Three people will be working directly with the program. Peripheral support will be supplied by the other members of the Planning Division staff.

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Planning and Development
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Briefing Book

on Block Grants and the New Federalism

Coalition on
Block Grants
and Human Needs
April, 1982

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INTRODUCTION

FOREWORD

This Briefing Book on Block Grants and "New Federalism" was prepared by the Coalition on Block Grants and Human Needs, an alliance of national organizations which are deeply concerned about the devasting implications of the Administration's "New Federalism" proposals for the truly needy in America. Our member groups include many of the national church denominations, civil rights organizations and groups representing poor and working people, disabled Americans, the elderly, children and other vulnerable groups.

The Coalition was formed early in 1981 when it became clear that the Reagan Administration's block grant proposals were designed to reduce and finally eliminate federal support for dozens of programs that are crucial to the well-being of millions of Americans. Since that time, we have focused on the new block grant proposals, the basic entitlement programs and the most recent "New Federalism" proposals.

The members of the Coalition are united by common commitment to five central principles in relation to the Administration's initiatives in these areas —

— the need for adequate federal funding for human needs and income maintainence programs;

-- the need for federal standards to ensure that such funds are targeted to those people who have the greatest needs;

-- the need to ensure that there is federal enforcement of civil rights laws and other crucial protections which have resulted from decades of struggle to improve the lives of Americans with special needs;

— the need for federal standards to ensure that local, state and federal agencies follow open, democratic decision-making processes and are held to basic standards of public accountability, including requirements that there be adequate records, auditing and oversight; and

— the need for a careful, deliberative process, with case-by-case consideration of each program which is proposed for decentralization, whether it should be operated by the federal, state or local government, or the voluntary sector, and whether continuing federal resources, standards and oversight are useful.

Much of the debate about "New Federalism" has missed the central point. The "New Federalism" proposals are not simply a move towards "sorting out" of federal and state roles and a decentralization of those federal programs which the states can administer better. If the issue for the Administration really were such a rational "sorting out," the Administration would not propose turning over virtually all domestic programs to the states without federal standards and, in time, without federal resources. It would instead:

- seriously examine what programs must continue to be administered nationally because they relate to national needs;
- continue federal support, standards and oversight for those programs which require such involvement;
- set forth a role for local governments in operating those programs which they can administer better than states or the federal government; and
- set forth substantial guarantees that private citizens, civic organizations and others will have an opportunity to be informed about and involved in the process of assessing needs and priorities for the use of funds, as well as the performance of the agencies responsible for administering the programs.

The Administration proposals are curiously silent on these issues, focusing exclusively on a wholesale shift of responsibility and temporary resources from one level of government to another -- from the federal government to the states.

The "New Federalism" proposals are, clearly, as the President has stated, interim steps toward the withdrawal of all federal support for over 100 programs. The issue is not block grants at all -- it is instead terminal grants.

As the Administration keeps changing its proposals, constantly proposing new combinations of programs and features, it is essential that the public and the Congress not lose sight of the fact that the Administration's constant, overriding goal is to find a way out -- to find a way to gain congressional acquiescence in the abandonment of much of the national government's responsibility for dealing with the the national problems of unemployment, poverty, inadequate education and inadequate services. If the Administration were to achieve this goal, the consequences would be devasting for the American people and for the state governments which would assume new responsibilities.

The original edition of this Briefing Book was developed in the Spring of 1981 in response to the Reagan Administration's proposals for block grants in the areas of health, education, social services, community development and emergency assistance. At that time, the Coalition saw the need to fill an information gap about the implications of the Administration's block grant proposals, and more than 100 national organizations joined together to raise basic questions about them.

During the 1981 debate on block grants, the Coalition unfortunately failed to achieve one of its primary goals: to separate the block grant proposals from the 1981 Omnibus Budget Reconciliation Act -- a move which would have permitted full and open debate on the merits of the proposed block grants. Along with other advocates, however, the Coalition did persuade Congress to exempt many key, targeted programs from the block grants and to add minimal protections and federal requirements to the new block grant programs.

These achievements are now newly threatened by the Reagan Administration's proposals for seven new block grants for the upcoming fiscal year, FY 1983. Even more fundamentally, they are threatened by the Administration's proposal to transfer another 43 federal programs to the states beginning in FY 1984, and to allow states to drop those programs and instead receive "super revenue sharing funds" which could be reallocated for any legal purpose. Furthermore, the proposal for state takeover of AFDC and Food Stamps in return for federalization of Medicaid -- the so-called "Swap" -- threatens the continuation of the most basic survival programs for poor people.

This edition of the Briefing Book contains descriptions of the Reagan Administration's most recent block grant proposals and its "New Federalism" proposals, as well as descriptions of the block grants passed by Congress in 1981 and their regulations, and descriptions of past block grant programs. This Briefing Book also contains analyses of key issues associated with "no strings" block grants and their likely consequences for a number of constituencies. We hope these materials will continue to provide needed information and stimulate discussion of current and future block grant and "New Federalism" programs.

Among the many individuals and organizations that contributed to the production of the two editions of the Briefing Book are the following:

Archdiocese of Washington, D. C.	John Carr
Center on Budget and Policy Priorities	Bob Greenstein
Center for Community Change	Paul Bloyd Rosa Colbert Woody Ginsburg Yolanda Green Sandi Greene Ronnie Kweller Andy Mott
Children's Defense Fund	Mary Lee Allen Nancy Ebb Carol Golubuck Sara Rosenbaum Judy Weitz
Human Services Information Center	Jule Sugarman Gary Bass

League of Women Voters	Kathryn Lavriha
National Association of Social Workers	Susan Rees
National Center for Policy Review	Bill Taylor
National Consumer Law Center	Carol Werner
National Council of La Raza	Ramiro Calvo Lizanne Fleming Bud Kanitz Litia Ona Tomas Saucedo Janet Schroyer-Portillo
National Education Association	Debbie Shon
National Health Law Program	Judy Waxman
National Low Income Housing Coalition	Kate Crawford
National Rural Center	Alice Hersh
Public Strategies	Decker Anstrom
Rural America	Shannon Ferguson
U.S. Catholic Conference	Melanne Verveer
U.S. Conference of Mayors	Joan Bannon Laura Waxman
Consultants	Cindy Brown Fran Eizenstat Harley Frankel Abigail Havens

Ronnie Kweller of the Center for Community Change was largely responsible for updating the new edition of the Briefing Book, as well as for coordinating production of and editing both versions.

The Coalition expresses its gratitude to the following organizations, whose monetary contributions helped make possible publication of this revised Briefing Book on Block Grants and "New Federalism"

American Federation of State, County and Municipal Employees
American Friends Service Committee
Budget Coalition, AFL-CIO
Center for Community Change
Children's Defense Fund
Displaced Homemakers Network
Fair Budget Action Center
League of Women Voters of the United States
National Association of Community Health Centers
National Association of Social Workers
National Black Child Development Institute
National Center for Social Welfare Policy and Law
National Council of La Raza
National Council of Senior Citizens
National Education Association
National Employment Law Project
National Health Law Program
National Puerto Rican Forum
National Urban Coalition
National Urban League
Rural America
U.S. Catholic Conference

COALITION ON BLOCK GRANTS AND HUMAN NEEDS
1000 Wisconsin Avenue, N.W.
Washington, D.C. 20007

(Same letter sent to President Reagan) February 25, 1982

Dear Member of Congress:

We the undersigned 77 organizations are deeply concerned about the devastating consequences of the Administration's new domestic proposals. It is absolutely clear that the combination of block grants, "new Federalism" initiatives and proposed deep cuts in vital income assistance programs will have one over-riding effect: abandonment by the Federal government of responsibility for helping to promote the general welfare of our people. We strongly believe that the Federal government has an affirmative duty to carry out this task.

The proposals to drastically cut food stamps, Aid to Families with Dependent Children, and Medicaid will deepen further the gap between rich and poor families in America. The sorry fact is that these programs have not kept pace with inflation during the past decade. These proposed cuts, on top of the ones enacted last year, will not reduce waste -- but they will deny food to hungry children, medical care for sick old people, and other critical services no decent society should deny the poor, low income workers and the unemployed.

The proposals to "swap" Medicaid for food stamps and AFDC and to "turnback" 40 programs to the states will have equally serious consequences for those in need. The "swap" plan would shift to the states the cost of financing the Food Stamp program and the Aid to Families with Dependent Children program. But, it does not mandate continuation of these programs. States would have the option of maintaining them, but they may also cut benefits or even transfer these funds to finance highways or other services, or to reduce their deficits. Swapping Medicaid for food stamps and AFDC would also be a huge financial drain on the states. It will cost states $1 billion in 1984 alone. The "turnback" proposal, which is really a repeal of 40 federal programs, would also be costly, about $5 to $16 billion the first year.

To help states meet the cost of these programs, the Administration proposes to return excise taxes and a portion of the windfall profits tax back to them. But, the windfall tax expires in 1990, and few states have oil they could tax on their own. Moreover, excise taxes are not only regressive, but also inelastic and do not grow with the economy.

The conclusion seems inescapable that millions of low income Americans would eventually have their already low standards of living reduced if the transfer proposal becomes a reality. In some places, the reductions could be dramatic and the types of hunger and malnutrition problems found in this country only 15 years ago could return.

In addition to the draconian budget cuts, we continue to oppose the Administration's block grant proposals. Turning money over without clear priorities, direction or strategy to the states will undermine national goals in housing, employment and training, education, rehabilitation, social services, health and nutrition. These proposals will mean two things: less assistance to those in genuine need and a brutal political struggle at the state level where the most vulnerable and those without clout are almost certain losers.

It should also be clear by now that these block grants are, in the President's own words, an "interim step" toward total abolition of Federal support for vital domestic needs. Not surprisingly, last year's block grants have already been subject to deeper cuts and are prominent candidates for termination and "turnback" to the states. While some state officials may think they gain flexibility with these block grants, they will find that the funds for them will be eliminated and they will be faced with raising their own money to keep programs operating.

We reject the idea that the Federal government has no role or responsibility for helping meet domestic needs. Indeed, many problems such as unemployment, poverty and discrimination are the direct result of inadequate national policies.

We don't believe that the Federal government should abandon the poor or place the full burden on states and communities for investing in the future with programs for job training, education, housing, decent health care and other needs. But that is the program that has been advanced. If it passes, it will mark a retreat from the nation's commitment to justice, decency and opportunity. It will also shift enormous new tax burdens to states and communities. And it will spark a "new Feudalism," in which every state will have to fend for itself, not a new Federalism. For these reasons, the undersigned organizations believe this radical program must be defeated.

Sincerely,

American Association of University Women

American Baptist Churches, USA,
Office of Governmental Relations

American Council of the Blind

American Federation for the Blind

American Federation of Teachers

American Friends Service Committee

American Health Planning Association

American Public Health Association

Americans for Democratic Action

Association of Community Organizations
for Reform Now (ACORN)

Association for Retarded Citizens

Center for Community Change

Child Welfare League of America

Children's Defense Fund

Children's Foundation

Coalition for Legal Services

Coalition of American Public Employees

Community Nutrition Institute

Congressional Black Caucus

Consumer Coalition for Health

Consumer Energy Council of America

D.C. Commission for Women

Deafpride, Inc.

Disability Rights and Education Defense
Fund, Inc.

Episcopal Urban Caucus

Federal Education Project of the Lawyers'
Committee for Civil Rights Under Law

Food Research and Action Center (FRAC)

Friends of VISTA

Gray Panthers of Metropolitan Washington

Housing Assistance Council

Information Center for Handicapped Individuals, Inc.

Jobs Roundtable

League of Women Voters of the United States

Lutheran Council USA, Office for Governmental Affairs

National Anti-Hunger Coalition

National Association of Social Workers

National Black Child Development Institute

National Center for Urban Ethnic Affairs

National Congress for Community Economic Development

National Congress of American Indians

National Congress of Neighborhood Women

National Consumer Law Center

National Council of Churches

National Council of Community Mental Health Centers

National Council of Jewish Women

National Council of La Raza

National Council of Senior Citizens

National Low Income Housing Coalition

National Network of Runaway Youth and Youth Services, Inc.

National Office of Jesuit Social Ministries

National Rural Housing Coalition

National Society for Children and Adults with Autism

National Urban Coalition

National Urban League

National Women's Conference Committee

National Women's Health Network

National Women's Law Center

National Women's Political Caucus

Neighborhood Coalition

Older Women's League

Project on Equal Education Rights, NOW Legal Defense and Education Fund

Rural America

Rural American Women

Rural Coalition

SANE

Service Employees International Union

Southeast Women's Employment Coalition

United Auto Workers

United Cerebral Palsy Association, Inc.

United Church of Christ, Office of Church and Society

United Food and Commercial Workers, Intl. Union, AFL-CIO

United Methodist Church, Department of Human Welfare, Board of Church and Society

United Presbyterian Church, Washington Office

Wider Opportunities for Women

Women's Equity Action League

Working Group on Community Development Reform

Young Women's Christian Association of the USA, National Board

BLOCK GRANTS AND THE "NEW FEDERALISM": A STRATEGY OF ABANDONMENT

> "I have a dream of my own. I think block grants are only the intermediate steps. I dream of the day when the federal government can substitute for those the turning back to local and state governments of the tax sources we ourselves have preempted here at the federal level so that you would have those tax sources."
>
> President Ronald Reagan
> March 1981

During 1981, while much of the nation's attention was focused on the debate in Congress and around the country over the Reagan budget, an equally significant battle was shaping up over the Administration's plan to kill dozens of federal programs and replace them with a series of "block grants" to be administered by the states with virtually no national priorities, standards or oversight. Under the guise of "increased flexibility" and "economic restraint," the Administration was advocating a radical program designed to reduce and finally eliminate federal involvement in health, education, social services and other major areas of national need.

Ironically, the Reagan Administration, which was making rhetorical commitments to "the truly needy" and "the social safety net," wanted to replace targeted programs with unfocused block grants that set no priorities.

The Administration wanted to consolidate dozens of federal programs, reduce their funding by 25% and establish a series of state-administered block grants. In the process, a number of key targeted programs would have been repealed, including the Child Welfare Act, the Child Abuse and Neglect Act, the Education for All Handicapped Children Act, the Rehabilitation Act, the Women's Educational Equity Act and laws establishing federally funded community and migrant health centers, among others.

The Administration justified the proposed 25% funding cuts for the block grants by claiming that substantial administrative savings would result from program consolidation. Available data, however, suggested that the estimated savings were greatly exaggerated.

Many of the programs that the Administration wanted to eliminate or consolidate were established by Congress after documented neglect and abuse at the state level. In many cases, states had a history of being unwilling or unable to meet the needs of homeless children, black lung victims, migrant farmworkers or the economically disadvantaged, to name just a few. It seemed unlikely that the continuing needs of these and other vulnerable groups would be met by turning over less money to states, with no requirements for accountability and no federal direction or oversight.

The Administration's block grant proposals contained virtually no requirements to target assistance on the basis of need, no citizen participation mandates, no civil rights protections, no program quality standards and no federal oversight or evaluation. There was no prohibition against substituting federal for state or local funds and no requirement for "maintenance of effort." The proposals included no role for state legislatures, no application or planning process and no basic accountability procedures.

Fortunately, Congress was persuaded to retain as distinct, categorical programs the key targeted programs mentioned above. Nevertheless, by consolidating many other programs into block grants, and slashing funds by up to 25%, Congress did set the stage for reduced services, diminished accountability and increased competition among needy constituencies.

With many essential features of federal programs removed and available funds drastically reduced, the new block grants mean less assistance to needy individuals, families and communities, as well as a brutal political struggle at the state level, where the poor and others without political clout will often be the losers. Not only is the process for allocating block grant funds at the state level far more likely to respond to political clout than to human needs, but it also pits one needy group against another -- older citizens against poor families, children's advocates against the handicapped -- in a desperate political battle over reduced resources.

In short, the Reagan block grants were not a step towards a new federal-state partnership, but a step towards abandonment of federal responsibility for meeting human needs.

The block grants passed by Congress in 1981 have set the stage for even deeper cuts and less accountability in the future, as the Reagan "New Federalism", "Swap", "Turnback" and FY 1983 block grant proposals clearly demonstrate. Again under the guise of giving states more flexibility in their use of federal funds, these proposals would actually eliminate federal support, over several years, for both the 1982 block grants -- and for other targeted programs that would be put into these or new proposed block grants -- and for vital income maintainence and nutrition programs that the states cannot possibly maintain at adequate levels without drastically increasing taxes. These proposals demonstrate the Reagan Administration's intention to eliminate virtually all federal support for human needs programs.

PAST EXPERIENCE OVERVIEW

A recurrent public policy debate has concerned the trade-offs between categorical and block grant assistance programs. Since the 1940s, consolidating categorical programs into broad block grants has been suggested as a way to streamline federal assistance programs. In 1949, the first Hoover Commission recommended that "a system of grants be established based upon broad categories -- such as highways, education, public assistance and public health." Through the 1950s and early 1960s, several block grant programs were proposed.

Congress enacted five block grant programs between 1966 and 1974: the Partnership for Health Act of 1966 (314(d)); the Omnibus Crime Control and Safe Streets Act of 1968; the Comprehensive Employment and Training Act (CETA) of 1973; the Community Development Block Grant Program (CDBG) in 1974; and, in 1975, the Title XX amendments to the Social Security Act.

These programs were either consolidations of many smaller categorical programs into one large grant, as in the Partnership for Health, CDBG and CETA, or an entirely new program, as in the Safe Streets Act of 1968.

The arguments in favor of block grants are familiar:

- Efficient delivery of services at the state and local level and reduced red tape and service duplication.
- Improved accountability and accessibility.
- More responsive and innovative programs that meet the needs of the citizens at the local level.

The experience with the five block grant programs, however, does not support these arguments.

The Law Enforcement Assistance Administration's block grants were considered ineffective and, as a result, the program was abolished by 1980.

The state-administered Title XX Social Services programs has had significant problems, with lack of accountability a major concern. Governors have resisted an evaluation that could have answered the most basic questions about the program's effectiveness and impact, and advocates have charged that it has not met the needs of poor people.

The Community Development Block Grant program has also been heavily criticized, with evaluations concluding that local governments have been unable or unwilling to achieve major congressional objectives with their CDBG funds.

There is also substantial evidence that program effectiveness and public accountability do not improve with block grants. The Comprehensive Employment and Training Act provides an example. It is well documented that until eligibility standards were tightened, many local governments passed over minorities and the long-term unemployed and brought less disadvantaged — and in some cases even ineligible — people onto CETA payrolls.

In fact, previous experience with block grant programs shows that they have achieved only minimal impact on the substance and effectiveness of services and have provided no real impetus for states and localities to develop innovative programs. In short, block grants have not yielded the results which their supporters promised: increased efficiency, responsiveness and innovation. Instead, they have illustrated the problems that occur when federal funds are transferred to states and localities without direction, accountability or specific objectives. Ironically, a General Accounting Office report called for new and tighter controls on CDBG at the very moment that the Reagan Administration was acting to eliminate the program's safeguards and accountability tools.

We must learn the lessons of our past experience, not compound the errors.

FY 1982 BLOCK GRANT SUMMARY

The new block grants represent a middle ground between the original "no-strings" Reagan proposals and the meaningful federal oversight and direction sought by advocates. Fewer programs than the Administration wanted were consolidated into the nine block grants; and minimal targeting, citizen participation and oversight provisions were included in the block grant legislation.

In brief:

- The changes in the **Community Development Block Grant** program remove the stringent application and citizen participation features of the original program, but do require one public hearing on a jurisdiction's plan. The requirement that the funds principally benefit low and moderate income areas is stressed less by the new Administration. States have the option of administering the Small Cities (non-entitlement jurisdiction) program or allowing the federal government to administer it.

- There are **four block grants in the health area**. Excluded from the blocks, and retained as categorical programs, are immunization, tuberculosis, black lung, venereal disease, developmental disabilities (proposed for inclusion in the Social Services block grant), migrant health centers and a new adolescent pregnancy program.

- The **Health Prevention and Services Block Grant** includes home health services, rodent control, fluoridation, health education/risk reduction, health incentive grants, emergency medical services grants, rape crisis services and hypertension programs. A public hearing on the state plan is required beginning in FY 1983, and states must establish criteria for evaluating the performance of grantees.

- The **Alcohol Abuse, Drug Abuse and Mental Health Services Block Grant** includes mental health centers and alcohol and drug abuse programs. Previously funded mental health centers are to receive funds in FY 1982, 1983 and 1984. A public hearing and grantee performance evaluation criteria are required.

- The **Primary Care Block Grant** includes only one program, community health centers, which are operated on a categorical program basis this year, FY 1982. States may administer the centers beginning in FY 1983, or they may choose to have the federal government continue to do so. The state must set criteria for evaluating the health centers and, beginning in FY 1983, hold a public hearing on its plan.

- The **Maternal and Child Health Block Grant** includes a number of programs for mothers and children, including services for crippled and disabled children, lead-based paint poisoning prevention, Sudden Infant Death Syndrome programs, hemophilia diagnosis and treatment, adolescent pregnancy and genetic diseases. No public hearing is required.

- **Education Consolidation** has two parts: Title I replaces (and largely waters down) the program for disadvantaged children under Title I of the Elementary and Secondary Education Act. Title II consolidates other ESEA programs, Teacher Corps, teacher training, career education and alcohol and drug abuse education. State education agencies must pass through 80% of their funds to local education agencies.

- The **Social Services Block Grant** consists of only Title XX of the Social Security Act, which provides a range of services such as child and adult day care, protective services, employment services, counseling, preparation and delivery of meals and health support services. While Title XX was formerly targeted to low income persons, the new block grant does not include income eligibility criteria. It does, however, retain the original program goals which include helping recipients achieve and/or maintain economic self-sufficiency.

- The **Low Income Energy Assistance Block Grant** provides funds to help low income people pay their fuel bills. It includes income criteria, requires equitable treatment of renters and prohibits counting energy assistance as income in determining other benefits. A public hearing on the state plan is required, beginning in FY 1983.

- The **Community Services Block Grant** continues the local community action program, with continued funding in FY 1982 for existing CAP agencies. Congress did not go along with the Reagan proposal to include this program in the Social Services Block Grant. A public hearing is required beginning in FY 1983. Funded CAPs or other nonprofit organizations must have boards comprised of at least one third of democratically selected representatives of the poor in the area.

Block Grant Regulations

Regulations for the seven block grants administered by the Department of Health and Human Services (all except community development and education consolidation) are minimal, failing for the most part to elaborate on or interpret the language of the statute. In every possible instance, HHS has left maximum discretion to the states in administering the block grants -- from determining that public hearings are not required this year (despite a general provision, in Title XVII of the act, requiring hearings every year), to allowing states to be the primary auditors of their programs, to stating that the department will ordinarily defer to a state's interpretation of the law unless it is clearly erroneous, to allowing states to determine the form and, to some extent, the content of their block grant plans.

Federal oversight is minimal, with no requirements for data collection by demographic characteristics. Civil rights requirements are minimal and ambiguous. The "interim final" regulations were published in the October 1, 1981, **Federal Register**.

A similar situation exists with regard to the proposed regulations for the CDBG Small Cities program, which were published in the **Federal Register** on Novmeber 20. Publication of proposed regulations for CDBG entitlement jurisdictions has been delayed until Congress approves the Small Cities regs.

Again, maximum discretion for interpreting the law is left to the states, with no prescribed application, recordkeeping or program evaluation forms or standards. The regulations do not address citizen participation and downplay the primacy of the CDBG program's primary objective -- to principally benefit low and moderate income people.

State and Local Strategies

Community groups are using a variety of strategies for getting involved in block grant policy making and implementation. Most are working in state-wide coalitions that include labor unions, religious organizations, groups that advocate for minorities, women, children, and handicapped, etc., service providers, professional associations, neighborhood and grassroots organizations and, in some cases, individuals.

Strategies include building relationships with state officials, bureaucrats and legislators so they are aware that community groups and their allies want to be involved in the block grant process; holding educational forums on block grants for both constituents and representatives of state government; pushing for representation on state block grant advisory bodies; holding "people's hearings" in the absence of state-sponsored public hearings; collecting data (beyond what is required in the law) and documenting service reductions caused by block grants and federal budget cuts; promoting news stories about the impact of block grants and budget cuts; and proposing state legislation and regulations that reinstate targeting, oversight, public participation, etc., that are now lacking in the federal law.

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II. New Block Grant and Budget Proposals

Following are summaries of the Reagan Administration's new block grant proposals for FY 1983; proposed changes in block grants that were enacted in FY 1982; proposed budget cuts in "safety net" entitlement programs for FY 1983; the proposed "Swap" of AFDC and food stamps for Medicaid in FY 1984; and the proposed "Turnback" of 43 additional federal programs to the states in FY 1984.

II. FY 1983 Block Grant Proposals

Child Nutrition Block Grant

The Reagan Administration is proposing to cut the school breakfast and child care food programs by about one-third and then merge them into a block grant. These cuts would be on top of cuts of 30% last year in the child care food program and nearly 20% in the school breakfast program. Most of those affected would be low income children.

Background on the School Breakfast Program

- The school breakfast program provides a nutritious breakfast each school day to about 3.6 million children in about 33,000 schools; 88% of these children are poor or near-poor (coming from families below 185% of the poverty line). Many of these children are from families in which there is only one parent, who leaves home early to work.

- Studies have found that the program has an important nutritional impact. A major Congressional Budget Office study issued in 1980 found that except for the WIC program, the breakfast program is the most nutritionally effective of the child nutrition programs. Compared to the school lunch program and the special milk program, the breakfast program was "the most beneficial" in terms of nutritional effectiveness, according to CBO, which added that "its cost-effectiveness is high." CBO found that children participating in the breakfast program have improved diets and a higher concentration of hemoglobin (indicating less anemia) due to the program.

- Studies have consistently shown that many of the low income children participating in the breakfast program come to school without eating breakfast and would have no morning meal if the program were not available. A substantial body of evidence shows that children who do not eat breakfast not only have poorer nutrition, but also do not learn as well.

- Last year the breakfast program was cut nearly $80 million, or nearly 20 percent; over 800 fewer schools offer breakfast compared to last year. The percentage of schools that have left the breakfast program is almost as large as the percentage of schools that have dropped out of the lunch program.

- As a result of last year's legislation, there are also over 400,000 fewer children participating in the school breakfast program. This is as large a decline (in percentage terms) as has occurred in the school lunch program. About 70% of the decline is in free or reduced-price breakfasts served to poor or near-poor children.

Background on the Child Care Food Program

- The child care food program helps provide meals to children of working parents (principally children of working mothers in one-parent families) while they are cared for in day care institutions. It is targeted principally at low income children. About 75% of the children in the program are poor or near-poor, and over 90% of the program's funds support meals for poor or near-poor children.
- The program was cut by nearly $130 million, or 30%, last year. These cuts, combined with the major reductions in funding for social services programs that support day care institutions for low income working families, are having a major impact on these institutions. Some institutions closed. Most remain open, but are being forced to raise fees charged to low income parents, reducing the number of children who are cared for and/or reducing the quality of care.
- The principal group adversely affected is the working poor -- the same group that bore the brunt of many of last year's cuts.

The New Proposals

- If no cuts had been made last year, these two programs would have cost $950 to $975 million in fiscal 1983. As a result of last year's cuts, the programs are expected to cost about $735 million next year if no further cuts are made. The new proposal is to combine them in a block grant at $488 million, a new cut of 33%, and an overall reduction of 50%.
- The cuts wolld grow in subsequent years, because the Administration is proposing that the new block grant be permanently funded at the $488 million level, with no adjustment in future years for rising food prices. By the end of the decade, the programs would have declined by

about two-thirds from where they would have been without last year's cuts or the new proposals. Schools and child care centers could not make up for this loss. There will be no way around the fact that food will cost more than it does today.

- A likely result of the new cuts is that a substantial number of additional schools will drop the breakfast program, as there would be no way for schools to replace the lost funds. Most children in the program are poor and cannot pay more for the breakfasts. Large parts of the breakfast program would simply disappear. Hundreds of thousands (perhaps several million) of poor and near-poor children would no longer be able to eat breakfast at school, and many would start the school day with no breakfast at all.

- The new cuts would work equal if not greater hardships on day care centers. Day care institions are not as well organized politically as schools, and they will probably fare badly in the competition for funds at the state level.

- In addition, in some states the child care food program would probably terminate. In about 12 states, the U.S. Department of Agriculture -- rather than the state -- now runs this program. In some of these states, the state Education Department is prohibited by law from disbursing funds to private institutions -- and most child care institutions are private, non-profit institutions. The new proposed block grant would end USDA operation of the program in these 12 states, so it is likely that in some of them, low income day care centers would be cut off entirely.

- Problems would also be very severe for family and group day care homes, as some states would likely provide funds only to day care centers and terminate family and group day care homes. The homes are more difficult to handle from an administrative standpoint, yet it is there that an increasing number of low-income children are cared for because they are generally less expensive than centers. Many of the persons providing family home day care are themselves low income women.

- The biggest losers would be the working poor. The cuts in support for low income day care institutions would make low cost child care harder to find. These parents would generally have to pay more for child care at the same time that their benefits in other programs (such as AFDC and food stamps) are being cut. Increased child care costs reduce the gains from working at low-wage jobs; and the sharp reductions in the child care food program would be one more factor contributing to the erosion of work incentives for low income working mothers.

The Concept of the Block Grant

- There is no logic in combining the school breakfast and child care food programs into a block grant. The program with which the breakfast program is most closely allied is the school lunch program, not the child care program -- but school lunch would not be in the block grant, while the child care program would be. The breakfast program and the child care food program are run by different institutions at the local level, and in some places they are even administered by different departments at the state level. It is hard to envision how any efficiencies or economies could result from the block grant.

- The school breakfast/child care block grant was an "11th hour" proposal, hurriedly thrown together by the Administration in late January as an alternative to further cuts in reimbursements for non-poor students in the school lunch program. After planning for months for further school lunch cuts, the Administration wisely backed off that idea at the last minute -- but then substituted this equally unwise block grant proposal instead. The Administration may have concluded that because most families in the breakfast and child care programs are poor, these programs are more vulnerable than school lunch.

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II. FY 1983 Block Grant Proposals

Maternal and Child Health /WIC Block Grant

Congress passed the Maternal and Child Health (MCH) Block Grant as part of the Omnibus Budget Reconciliation Act of 1981. It builds on the only federal health program targeted on mothers and children, the Title V Maternal and Child Health and Crippled Children's Program, passed by Congress 46 years ago, and it replaces this program and six others which provide health services for mothers and children: Lead-Based Paint Poisoning Prevention Program, Sudden Infant Death Syndrome funds, the Supplemental Security Income program of support services for disabled children, adolescent pregnancy services, Genetic Disease Program and a program for the development of hemophilia diagnosis and treatment centers.

Under these programs, almost 17 million pregnant women and children receive services ranging from prenatal care, checkups and immunizations to the most sophisticated types of medical care for crippling childhood diseases and intensive infant care for newborns. These programs also support a network of clinics in most counties across the country to which Medicaid-eligible families and poor families not eligible for Medicaid can go for routine health care for their children.

The MCH block is currently federally funded at $348 million, a 30.1% cut, including inflation, from FY 1981 levels.

The Special Supplemental Food Program for Women, Infants and Children (WIC) was enacted by Congress in 1972. It provides prescription food packages (iron fortified infant formula, milk, eggs, cheese, cereal, juice), nutrition education and access to health care to over 2 million low income pregnant and nursing mothers, infants and young children who are medically certified to be at nutritional risk. WIC is entirely federally financed. About $950 million was appropriated for WIC for FY 1982. It is one of the few social programs that Congress did not cut last year, although the President had proposed a 30% cut.

The Reagan Administration is now proposing to end the WIC program and expand the Maternal and Child Health Block Grant to provide the prescription food packages and nutrition services now available through WIC. However, the funds added to the MCH Block Grant to compensate for terminating WIC would be 30% below current WIC operating levels.

If funding for nutritional services for low-income women and children now provided through WIC is cut by 30%, hundreds of thousands of women, infants and children will suffer the effects of nutritional deficiencies. Already, WIC is unable to reach all who need it. Tens of thousands of mothers and children are on waiting lists or are turned away because there are insufficient funds to serve them. Not unrelated is the fact that in the U.S. today, one out of every 81 infants and one out of every 47 non-white infants dies each year.

To block grant WIC will shortchange mothers and children. Pregnant and nursing women need to eat adequately and receive necessary medical care to have healthy babies. Infants and children need to eat adequately and receive necessary medical care to stay well. Less of **either** will reduce the chances children have to live and to grow up healthy. Anything short of a full and focused commitment to **both** is detrimental to mothers and children.

To block grant WIC and the MCH program will mean fewer overall federal and state dollars going to affect maternal and child health:

- Congress is more likely to provide adequate funds for maternal and child health and nutritional services if WIC and MCH are kept as separate programs. Both MCH and WIC currently have bipartisan support in their respective authorizing and appropriations subcommittees. If jurisdiction for WIC is shifted to the authorizing and appropriations subcommittees which handle the MCH block, the two programs will be forced to compete for the same limited funds.

- If WIC and MCH are merged, state health departments will lose money. WIC requires no state matching funds, but the MCH block requires $3 in state matching funds for every $4 in federal funds. Any WIC matching requirement which calls for new state expenditures will mean financially-strapped states will decline federal dollars and provide less food and health care for mothers and children. If the MCH state match is reduced or eliminated to accommodate the WIC merger, further cutbacks in an already minimal program will be assured.

To block grant WIC means to end one of the most effective federal programs on the books:

- A study at the Harvard School of Public Health found that participation in WIC is associated with a marked reduction in the incidence of low birth weight infants. (Low birth weight is one of the leading causes of death in the U.S. and is associated with higher rates of disability and retardation.) WIC infants averaged 128 more grams at birth than infants from a control group. The study determined, conservatively, that each $1 spent on the prenatal component of WIC averts $3 in hospitalization costs after birth.

- A study conducted by the Massachusetts Department of Public Health, in which births to 4,000 WIC mothers were matched with 4,000 comparable non-WIC births, concluded that the neonatal mortality rate for the WIC births was only one-third the rate for the non-WIC births.
- Data collected by numerous states and by the Center for Disease Control shows that WIC results in marked reductions in anemia.

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II. FY 1983 Block Grant Proposals

Primary Care Block Grant

Community and Migrant Health Centers are private, non-profit programs which provide primary medical care to persons who live in areas with too few or no physicians and high infant mortality rates.

In FY 1982, federal funding for Community Health Centers was cut by **25%** and funding for Migrant Health Centers by **18%**. Community Health Centers were placed in their own Primary Care Block Grant, and states were given the option of taking over the program beginning FY 1983. Congress required states which want to take over the program to provide 20% state matching for FY 1983 and 33% in FY 1984. The Department of Health and Human Services (HHS) has urged states to take over the Primary Care Block Grant. It has told states not to worry about the required state match.

HHS has also attacked Community Health Centers in other ways. On October 18, 1981, the Department issued a list of 1,500 areas no longer considered medically underserved, an action which threatened the loss of federal funds for 95 to 100 clinics. The "designations" were based on extremely faulty health planning data. For example, parts of Harlem and Watts and East Oakland, California -- impoverished communities with high infant mortality rates and few physicians -- were considered by HHS as no longer medically underserved. After a great deal of political pressure directed against HHS and data from community health centers, the Department is reconsidering its action. HHS is also threatening clinics with loss of funding because they have not met "performance criteria." Some clinics have received notices which do not even specify which criteria have not been met.

Congress continued Migrant Health Centers as a federal program in FY 1982, fearing that states would be unwilling to provide health care to migratory workers who cross state lines.

For FY 1983, President Reagan proposes including Black Lung Clinics, Migrant Health Centers and Family Planning programs in an expanded Primary Care Block Grant. Funding would remain at FY 1982 levels, with no increases to cover inflation.

As a direct result of the FY 1982 budget cuts, 40 community health centers have closed. By the end of the year, 120 community health centers and 14 migrant centers could close, resulting in the loss of medical care to 1.3 million people in medically underserved areas and 50,000 migrant and seasonal farmworkers. The 772 Community and 128 Migrant Health Centers serve 6 million people living in rural and urban medically underserved areas. These health centers provide medical care for the "truly needy":

- 80% of all center users have incomes below 150% of the poverty line ($12,675 for a family of four).

- Health centers each year provide care for 559,000 migrant and seasonal farmworkers and their families

- 80% of health center users are minorities.

- Health centers care for 400,000 elderly each year. The number of elderly receiving care at health enters has doubled in the last three years.

Community and Migrant Health Centers have increased **access** to health care for millions of Americans and have **improved the health status** of their communities:

- Three-fourths of health center users receive preventive care. Health centers emphasize pregancy care and care for children.

- In one southern community, infant deaths decreased 50% following establishment of a health center. Community clinics in Baltimore decreased the incidence of rheumatic fever by 60%.

Community and Migrant Health Centers provide **quality care**:

- In a study of Community Health Centers between 1968 and 1976, New York's Albert Einstein School of Medicine found that these centers provided care "generally equal to and in some instances superior to that of other established providers of health care."

Community and Migrant Health Centers are **Cost-Effective**.

- They reduce the use of expensive hospital emergency rooms and cost 33% to 60% less than hospital outpatient departments and emergency rooms. Studies have shown that these centers reduce hospitalization rates by 25% to 66%. The amount of money thus saved exceeds the cost of the entire $248 million program. A recent independent study showed that last year alone, health centers saved the Medicaid program $580 million.

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II. FY 1983 Block Grant Proposals

Child Welfare Block Grant

In its FY 1983 budget the Administration has proposed, once again, to include the child welfare programs in a block grant that would include the Title IV-B Child Welfare Services and Training Programs and the Titles IV-A and IV-E Foster Care and Adoption Assistance Programs addressed by P.L. 96-272. Funding for the block grant would be limited to $380 million for FY 1983 and thereafter -- at least 18 percent below the current funding levels for these programs and 46 percent below the funding levels originally anticipated in P.L. 96-272 for FY 1983. Adequate funding of these programs is essential to move toward the family permanence homeless children need.

Passage of the block grant would effectively repeal P.L. 96-272. States would no longer have fiscal incentives to develop protections for individual children in care, such as case plans and periodic case reviews, or to ensure that children receive quality care and permanent families. Incentives for the states to develop cost-effective programs to keep families together and to reunify families that are separated would be eliminated, as would incentives for the adoption of special needs children. This proposal ignores findings that public dollars used to keep families together or to move children into permanent adoptive families are more cost-effective in the long run than placing or leaving children in out-of-home care.

At the same time, other proposed cuts of at least $2 million in the state grant portion of the child abuse program, $1.2 billion in AFDC and over $400 million in the Social Services Block Grant would also undermine basic family supports, forcing more and more families to turn to the child welfare system as a last resort. Who would pay? The most vulnerable children in our society and American taxpayers.

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II. FY 1983 Block Grant Proposals

Low Income Energy and Emergency Assistance Block Grant

The Reagan Administration's FY 1983 budget proposes numerous, and very substantial, changes in the low income energy assistance program, one of the 43 programs the Administration wants to turn over to the states as part of its "New Federalism" venture. The changes presented in the FY 1983 budget include:

- Consolidating the energy assistance program with the emergency assistance program.
- Cutting the funding level by one-third from FY 1982 levels (from $1.875 billion in FY 1982 to $1.3 billion in FY 1983). This is even lower than what the Administration sought last year.
- Counting energy assistance benefits as income in determining eligibility and benefit levels for both AFDC and food stamps.
- Providing states "added flexibility in determining income eligibility requirements and payment levels."
- Changing the state allocation formula "to target funds to states most in need" by focusing on heating costs in the winter (rather than annual home energy costs).
- Eliminating "unnecessary restrictions... which currently prevent states from delivery of effective energy and emergency assistance to those who need it the most."

Background

The low income energy assistance program was established to help low income households offset the huge increases in home energy costs resulting from actions taken by OPEC and by the federal government to decontrol the price of oil and to phase in deregulation of natural gas prices. Since 1973, fuel oil prices have increased over six-fold; natural gas prices have more than quadrupled; and the cost of electricity has nearly tripled. These costs are expected to climb even higher -- with the encouragement and support of the Administration. More and more low income households simply cannot afford to pay their utility bills, and many literally face the day-to-day choice of "heat or eat."

Last year the Administration proposed essentially the same kind of program consolidation, but at a proposed budget level of $1.4 billion rather than the $1.3 billion being proposed for FY '83. Congress rebuffed that effort and instead passed a three-year authorization for the Low Income Energy Assistance Program, authorizing funding of $1.875 billion per year. The emergency assistance program was maintained as before. About half the states participate in the emergency assistance program, a 50-50 federal-state match program, for which the federal share was $61 million last year. The program assists families with children facing a wide range of emergency situations, of which energy is one.

The energy assistance legislation enacted last year was made "looser" in its requirements than the expiring statute, but it contained 16 assurances that states must meet in their program designs, and it contained definitions, provisions for ensuring compliance and so forth. The Administration's proposal would gut these requirements. In fact, the Department of Health and Human Services virtually abdicated its responsibility for the program at the outset and gave the states tremendous discretion.

For example, the law requires program outreach, public participation in the development of the state plan, equitable treatment of renters and targeting of benefits to those most in need, among other requirements. But HHS made no attempt to define what was meant by adequate outreach, for example, or what factors should be considered in targeting of benefit levels. Instead, whatever a state did -- as long as it said it would do something -- was deemed acceptable. The result is that HHS has very little knowledge of how the program is running, how well the intent of the law is being met and how adequately energy assistance needs are being met. The existing situation -- **with** specific assurances in the statute -- suggests that the sweeping changes proposed by the Administration would wipe out any means of holding either HHS or the states accountable to any kind of standard, no matter how minimal.

Although the Administration has not yet submitted the specifics of its proposal, it appears that the following will be included as part of the effort to remove any "burden" from HHS and to provide the utmost discretion to the states:

- deletion of mandatory outreach;
- elimination of targeting of highest benefits to those with lowest income in proportion to energy costs;
- changes in eligibility language;
- deletion of the "income disregard" provision (which has prevented energy

assistance from being counted as income for other programs);

- elimination of HHS's responsibility for data collection;
- elimination of the energy crisis assistance reserve requirement;
- elimination of HHS's responsibility to investigate compliance with the Act;
- elimination of the state independent audit requirement;
- deletion of the fair hearing requirement;
- deletion of the definition of median income (which required HHS to provide certain data to the states);
- deletion of the 15% **limit** on use of funds for weatherization activities.

These changes would be accompanied by a change in the formula to target funds to states with the highest winter heating costs, along with a one-third budget reduction (the rationale is that the budget request is adequate if "targeted" appropriately) and consolidation with the emergency assistance program.

Impact of Proposed Changes

Consolidation would result in diffusing support for energy assistance, as the block grant would suddenly be available for a broad range of emergency situations, not just energy. Nearly half the states had not even participated in the small emergency assistance program (which required a 50% match) before; and energy assistance was started specifically because of huge increases in energy costs.

The changes listed above would tear the essence out of existing legislation: they eliminate standards and measures that have been found essential in the past; they eliminate protections for the intended "safety net" beneficiaries; and they eliminate any method of holding HHS and the states accountable for ensuring well-run programs, equitable distribution of assistance and knowledge of who is served and how adequate the help is in relation to the need. For an Administration that talks about "waste, fraud, and abuse," it is a real contradiction to remove investigation, audit and reporting requirements.

The energy assistance legislation was simplified greatly last year; left in were minimal requirements necessary to ensure that the funds were used to meet congressional intent. By stripping out such standards, the funds almost become "general revenue sharing" funds, and there is no way to insist that low-income households are treated fairly and that their needs are recognized. Without national standards, the variance among states would become much greater, even though the program originated because of the severe **national** energy problem.

Under the new proposal, one greatly diminished "pot" would be expected to do everything. For example, the Administration has justified its request to eliminate the Energy Department's weatherization program by deleting the existing 15% limit on the use of energy assistance funds for weatherization. In fact, Administration-led opposition to supplemental appropriations for the energy assistance block grant argued that no additional funds were needed, since some states had exercised their option to transfer 10% of their funds to certain other block grants. (The Administration had argued hard **for** the adoption of the 10% transfer option last year.)

The Administration's proposal to count energy assistance as income in determining eligibility and benefit levels for AFDC and food stamps would be devastating. Currently, participants in those programs are categorically eligible for energy assistance. The proposed change would be a "dollar-for-dollar" trade-off for AFDC recipients, effectively cutting off energy assistance for those families. Those receiving food stamps would have their benefits cut $3.50 to $5.25 for every $10 of energy assistance. This change would hit the elderly especially hard, as they comprise 35% to 40% of current energy assistance recipients.

The Administration's proposed one-third budget cut for this block grant would mean a drastic cut in benefits and/or the number of households served. This, too, would be at state discretion. Less than 8 million of the 20 million eligible households were served in FY 1981, with an average benefit level of $225, at a funding level of $1.85 billion. At $1.3 billion, if half the eligible households were served and a state exercised the existing transfer options (15% for weatherization, 10% for other block grants), the average benefit would be $85. Over the past year, gas prices rose 20% and oil prices increased over 11%; oil prices increased 30% during the last 15 months.

What will happen to people who cannot pay their energy bills if funds are cut back and then diffused further through the changes proposed by the Administration?

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II. FY 1983 Block Grant Proposals

Education Block Grants

Title I of the Elementary and Secondary Education Act

Five million children who live in poor neighborhoods and who are behind in school will become victims of the budget ax as a result of reduced funding for Title I of the Elementary and Secondary Education Act. Title I is the largest federal education aid program and last year was maintained as a separate program, entitled Chapter I of the Education Consolidation and Improvement Act, and kept out of the block grant, Chapter II.

The cuts are estimated at $1.9 billion for FY '82 and $1.5 billion for FY '83, as compared to the current funding level of $3.1 billion. In many instances, current Title I funding is not adequate to help as many children as it did last year. At present, estimates show that only 45% of the 11 million eligible Title I children are being served.

Under the Title I program, money is used to provide extra help in reading and math for elementary school children who are not performing at the level of other children their age. Teachers and classroom aides who work with small groups of educationally disadvantaged children also rely on Title I funds for their salaries. Special programs to help children of migrant workers and summer school programs for high school students depend on Title I funds as well. Recent studies show that students who participate in various Title I programs do better in school than comparable students not in Title I programs. One study conducted by the Stanford Research Institute found that Title I children make more than a month's gain in reading for every month they spend in the program.

Even though Title I was kept out of the block grant and maintained as a separate program last year, it was severely weakened. Title I monies will still be distributed to local education agencies (LEAs) using a formula based on poverty, but the funds no longer will be targeted to those children most in need. Other restrictions on education monies were also weakened. LEAs are only required to continue funding programs at 90%, not 100%, of the level that they did in previous years. And even though LEAs are not permitted to use federal money to replace or "supplant" state and local money, the bill includes no enforcement for these provisions. Parental consultation and involvement in the design and implementation of education programs is now optional.

State Education Block Grants

The education block grant, Chapter II of the Education Consolidation and Improvement Act, consolidates all other programs contained in the Elementary and Secondary Education Act, including: Grants for the Disadvantaged; Career Education Incentives; Consumer Education; Teacher Corps; and the Alcohol and Drug Abuse Act. For FY 1983, $433 million is authorized for the block grant.

Under the block grant, states are required to share 80% of the funding with the LEAs. To assist in parcelling out the funds, a state, in conjunction with the state education agency, must consult with an advisory committee. The committee, appointed by the governor, must offer broad representation of the educational interests and the general public in the state. States must also provide timely public notice and public dissemination of information. It is left to the discretion of state and local education agencies to determine which of these educational activities to fund.

Vocational and Adult Education

These programs are proposed for consolidation into a state block grant of vocational and adult education.

Impact Aid

This program compensates local school districts whose revenues are reduced because the parents of school-aged children live or work on tax-exempt federal property. Payments are made directly to the local school districts, and funds may be used for operating expenses and sometimes for construction. In FY 1983, assistance will be made only to districts on behalf of children whose parents both live and work on federal property.

Pell Grants

This program provides financial aid directly to undergraduate students, and the grants are the baseline for other financial assistance.

Guaranteed Student Loans

In addition to funding cuts, eligibility requirements for guaranteed student loans will be stricter and the amount of loans to each applicant will be limited.

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SELECTED EDUCATION BUDGET CUTS

[All levels are expressed in millions]

Program	FY 1982 level	Proposed FY 1983 level	Proposed FY 1984 level
CHAPTER I, EDUCATION AND CONSOLIDATION IMPROVEMENT ACT Title I, Aid to the Disadvantaged	$2,978	$1,942	$1,500
CHAPTER 2, EDUCATION AND CONSOLIDATION IMPROVEMENT ACT State Education Block Grant	471	433	305
Vocational & Adult Education	634	500	500
Impact Aid	453	289	289
Pell Grants	2,188	1,400	1,000
Guaranteed Student Loans	3,061	2,485	2,515

*will be incorporated into a block grant

TOTAL FY 1983 BUDGET AUTHORITY FOR ALL EDUCATION PROGRAMS: $10,266

($2,800 M less than proposed for FY 1982.)

II. FY 1983 Block Grant Proposals

Education for the Handicapped Block Grant

President's Reagan's proposed FY 1983 budget would cut spending for the education of handicapped students by nearly 30 percent and change existing law to create two education of the handicapped block grants which would amend P.L. 94-142, the Education for All Handicapped Children Act, to "reduce federal restrictions and regulations." From all indications, the proposed changes in the law would be tantamount to repeal of the substantive protections and quality assurances contained in P.L. 94-142.

The two block grants would be:

- **State Block Grant** -- Would combine P.L. 94-142, P.L. 89-313 (state-operated programs currently under Chapter I of the Education Consolidation and Implementation Act of 1981 -- formerly Title I of the Elementary and Secondary Education Act) and Preschool Incentive Grants (currently under P.L. 94-142). The amount of money for the block represents a 30 percent cut in current funding. Significant changes to P.L. 94-142 are to be proposed.

- **Special Purpose Block Grant** -- All of the Education of the Handicapped Act (EHA) discretionary programs (everything but P.L. 94-142) would be repealed and merged into one fund to be kept at the federal level and reduced by 15 percent. There is no indication of how this money is to be spent. Possibly all applicants for federal grants for research, demonstration, and dissemination in special education would be competing rather than having discreet categories of funding, i.e., severely handicapped, regional resource centers, parent information centers, etc. The current discretionary programs are "earmarked" in the budget for funding of projects in the following areas:

    - an early childhood model and demonstration program;

    - a program of research in education of the handicapped;

- a program of regional resource centers;
- severely handicapped projects;
- a deaf-blind program;
- regional education programs -- a program of vocational, adult and postsecondary education for handicapped youth; and
- a program of instructional media services and captioned films.

With the Administration calling for severe budget cuts, substantive amendments to P.L. 94-142 and repeal of P.L. 89-313 and the EHA discretionary programs in favor of block grants, it is important to recall why this legislation came into being. From at least the late 1950s, the federal government assumed an increasing "seed and catalytic" role in the education of handicapped children; thus the EHA discretionary programs were inaugurated over time. These programs must continue their vital "seed and catalytic role," along with the additional role of support for the larger mission of P.L. 94-142.

P.L. 94-142 itself was by no means enacted in haste -- it was the result of at least four years of intensive deliberation by the Congress. In the end, Congress decided that two objectives must be achieved: a larger federal fiscal partnership in the education of handicapped children, and the establishment of a "minimum floor" of educational rights guarantees for handicapped children and their parents.

Surveys of Special Education administrators nationwide conducted by the National Association of State Directors of Special Education (NASDSE) and the Council of Administrators of Special Education (CASE) (a division of The Council for Exceptional Children) have documented the following devastating results that would likely occur if the Reagan Administration's proposals are adopted by the Congress:

- Severe budget cuts and substantive changes in the law would drastically affect services to handicapped children. Local and state efforts will not be able to compensate for the lack of federal funds. A result would be decreases in services to preschool-aged and 18-21-year-old students.
- Some districts reported that 20 to 50 percent of exceptional students would lose services.
- Evidenced by state legislative activity last year under similar threat, states would con-

sider weakening their own special education mandates.

- Personnel would be reduced.
- Teacher/pupil ratios would worsen as class size increased.
- While the nation is in need of at least 64,000 new special education teachers, the budget proposals could effectively bring teacher training to a standstill.
- Reductions in special education opportunities will eventually mean greater social and taxpayer costs.

In sum, the Administration is proposing to discard some 15 years of negotiation and agreement respecting the federal role in special education and respecting the relative size of the federal fiscal commitment in meeting specific education needs of handicapped children.

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FY 1982 and FY 1983 Budget Request[1]

Program	1981 Appropriation	1962 Third Cont. Resolution (P.L. 97-92; Expires March 31, 1982)	Administration's 1982 Revised Rescission Request	Administration's 1983 Budget Request
Education of the Handicapped Act (EHA)				
• State Grants (P.L. 94-142)	$ 874.5	$ 931.008	$672.436	-
• Preschool Incentive Grants	25.0	24.0	24.0	-
• Deaf-Blind Centers	16.0	15.36	15.36	-
• Severely Handicapped Projects	4.375	2.88	2.88	-
• Early Childhood Education	17.5	9.6	9.6	-
• Regional, Vocational, Adult and Postsecondary Programs	2.95	2.832	2.832	-
• Innovation and Development	15.0	7.2	7.2	-
• Media Services and Captioned Films	17.0	11.52	11.52	-
• Regional Resource Centers	7.656	2.88	2.88	-
• Recruitment and Information	.75	.72	.72	-
• Personnel Development	43.5	33.6	33.6	-
• Special Studies	1.0	.48	.48	-
EHA Total	$1,025.231	$1,042.08	$783.508	-
• State Special Education Block Grant (Includes P.L. 94-142, Preschool Incentive Grants and P.L. 89-313)	-	-	-	$771.685
• Special Purpose Block Grant (Includes all EHA Discretionary Programs)	-	-	-	73.983
Block Grant Total	-	-	-	$845.668
Education Consolidation and Improvement Act (ECIA)				
• Handicapped State Operated Programs (P.L. 89-313)	$ 152.625	$ 146.52	$ 116.16	-
• Education for the Disadvantaged (Chapter 1, ECIA)	3,104.317	2,885.969	2,474.4	1,942.0
• School Improvement Block Grant (Chapter 2, ECIA)	537.485	483.84	470.4	432.0
Rehabilitation Services				
• State Grants	$ 854.259	$ 863.04	$ 771.869	$ 579.536
Vocational and Adult Education				
• Vocational Education (Includes State Grants and Other Services)	$ 681.639	$ 653.266	$ 549.445	-
• Adult Education State Grants	100.0	86.4	84.48	-
Total	$ 781.639	$ 739.666	$ 633.925	
• Vocational and Adult Education Block Grant	-	-	-	$500.0

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[1] In millions of dollars.

Prepared By
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DEPARTMENT OF GOVERNMENTAL RELATIONS

February 8, 1982

II. FY 1983 Block Grant Proposals

Rehabilitation Services

REHABILITATION SERVICES ADMINISTRATION (RSA) (in millions)

	FY 1981	FY 1982	FY 1983 P.L. 97-35 Authorization	President's Proposed FY 1983
Basic State Grant	$854	$863	$943.9	block grant
Service Projects	29.860	23.9	30.11	block grant
Training	21.7	19.2	25.5	block grant
Independent Living	18	17.28	19.4	block grant
Total of Rehab. Services Block Grant	-	-	-	$637

For 1983, the President is proposing that Rehabilitation Services programs be transferred from the Department of Education to the Department of Health and Human Services. Moreover, these categorical programs would be consolidated and funded at a total level of $637 million for FY 1983. Combined, these programs are presently being funded at $923.6 million. This is a $286.6 million reduction. In addition, the Administration proposes a recission of $91.1 million for the vocational rehabilitation state grant program in FY 1982. These programs would be terminated as part of the "turnback" initiative in FY 1984.

VOCATIONAL REHABILITATION SERVICES FROM THE SOCIAL SECURITY TRUST FUNDS

	FY 1981	FY 1982[1]	President's Proposed FY 1983
From the Old-Age Survivors Insurance Trust Fund	$11.5 million	$264,000	$924,000
From the Social Security Disability Insurance Trust Fund	75.6 million	1.7 million	6.1 million

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[1] Effective October 1, 1981, by P.L. 97-35, the vocational rehabilitation services mechanism under the OASI and DI trust funds was changed. The present law provides reimbursement to states for rehabilitation services **only** after they have shown disabled beneficiaries to be successfully engaging in "substantial gainful activity" (SGA) for nine continuous months, and that the vocational rehabilitation services contributed to the successful return to SGA. Determinations will be handled on a case by case basis. This reimbursement after SGA has already drastically reduced expenditures and will continue to do so.

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II. FY 1983 Block Grant Proposals

Employment and Training Block Grant

In the face of the highest unemployment levels in the country since before World War II — over 10 million individuals out of work -- the Reagan Administration wants to shirk federal responsibility in this area and turn the problem over to the states. It is preparing to capitalize on the September 30, 1982, expiration date of the Comprehensive Employment and Training Act (CETA), which has provided federally directed employment and training services for the disadvantaged since 1973. The CETA program is no stranger to the block grant issue: It is one of the major programs enacted under former President Nixon's "New Federalism." Fraud and program abuse during CETA's early experience, before new federal regulations tightened the program in the late 1970s, undermined public and political support. But the CETA experience shows how quickly we forget — we now observe the Reagan Administration asking for a return to the no-strings approach that hurt CETA in its early years.

The first step in the Administration's strategy is to eliminate CETA's effectiveness through severe funding slashes. Specifically, in FY 1982, the Reagan Administration and Congress:

- Eliminated 80% of the funding for programs under the Youth Employment and Demonstration Projects Act (YEDPA), eliminated Title VIII of CETA (the Young Adult Conservation Corps) and cut 20% from the Title IV Summer Youth Employment Program.

- Completely eliminated the Public Service Employment (PSE) programs, which in 1981 funded approximately 310,000 jobs for over 500,000 people during the year. In addition to providing job experience and skill training to long-term unemployed adults, the PSE programs financed much-needed community services that facilitated a variety of programs for many constituencies, including the elderly, the handicapped and local schools.

- Reduced by 64% the funding for CETA Title III national programs which provided special services for specific groups of disadvantaged jobs seekers, such as displaced homemakers, the elderly, migrants and welfare recipients.

These funding reductions may continue through the remainder of FY 1982, under the Continuing Resolution which expires on March 31. Congress must pass legislation to provide funds for the remainder of this year, and the Administration is likely to propose further cuts and perhaps even rescissions.

The Administration and several members of Congress have offered proposals to replace CETA with a more modest program. Three bills, in addition to the Administration proposals, are important: S. 2036, introduced by Sens. Dan Quayle (R-Ind.) and Edward M. Kennedy (D-Mass.); H.R. 5320, introduced by Rep. Augustus Hawkins (D-Calif.); and H.R. 5461, introduced by Rep. James Jeffords (R-Vt.). Each of the four proposals would shift responsibility for coordination and oversight of targeted training programs to states, localities and the private sector. All contain fewer federal protections for equitable service to minorities, opportunities for citizen participation and input, non-discrimination and grievance processes. Some of the critical federal responsibilities and protections that the bills would weaken are:

Funding Level. Proposals range from a high of $5 billion (Hawkins) to a low of $2.4 billion (The Administration).

Planning Process. CETA requires local plans outlining the services that will meet local employment and training needs, review and comment by interested citizens and community based organizations and several advisory councils with broad representation. Each of the four proposals structures planning input through only one advisory body, a Private Industry Council (PIC), which would have a majority of business representatives, though representation of other local interests -- labor, community based organizations, the eligible population, etc. -- is also mandated. The Administration and Jeffords proposals do not require public review and comment on proposed plans.

Administration of Local Services. CETA was administered by local "prime sponsors," usually local government officials, who were presumably somewhat accountable to the public. All of the new proposals except Hawkins' allow the governor to designate the Private Industry Council as the administrator of employment and training services for the disadvantaged; and they do not require citizen input, except minimal representation of consumers and local citizens on the council.

Grievence and Complaint Procedures. Program requirements and procedural protections are only effective if there is a means of enforcement other than self-enforcement by the agency administering the program. CETA mandated an administrative grievance procedure available to all program participants and other interested individuals. Of the new bills, only the Hawkins proposal continues the CETA grievance procedure. The Administration's proposal lets the governor set complaint policy, and the others rely solely on continued self-policing through the Comptroller General or Inspector General.

Wage and Allowance Payments. The Administration proposal and the Quayle/Kennedy bill prohibit the payment of training allowances or wages to individuals in subsidized jobs. It is ironic that the two proposals which seek the least federal role and the most flexible design propose a strict federal regulation which may have a significant adverse affect on the ability of the most disadvantaged individuals to participate in employment and training services.

Both the Senate Labor and Human Resources Committee and the House Education and Labor Committee expect to report bills in early May to meet the May 15 deadline for FY '83 appropriations. The fact that the Administration is submitting its own bill, rather than working through Senator Quayle, the Republican chair of the Senate Employment Subcommittee, indicates that it will push strongly for block granting of employment and training responsibilities to the governors and to private industry.

The Reagan Administration's CETA proposals would do away with important safeguards, obliterate the benefit of the several years' experience with CETA block grant operations and return the employment and training system to its situation prior to the 1976 and 1978 CETA amendments. Vital national policy objectives once again will be endangered, with the same state officials responsible for operating programs also in charge of monitoring performance and securing compliance.

Abdication of federal responsibility to assist the jobless, by inadequately funding employment programs and sharply reducing federal standards and oversight, is incompatible with current crisis levels of joblessness and is a shortsighted approach to cost cutting. Our society gains a great deal more by helping the jobless obtain a means to a livelihood than by paying the extremely high social costs of keeping them on welfare or dealing with the law enforcement, health and housing problems caused by leaving them destitute.

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II. FY 1983 Block Grant Proposals

Rental Housing Rehabilitation Block Grant

As part of its plan to eliminate virtually all federal housing subsidies for low and moderate income people, the Administration proposes to replace the Section 8 moderate rehabilitation program and the Section 312 rehab loan program with a Rental Rehabilitation Block Grant.

These grants would go to state and local governments to cover up to 50% of the cost of rehabilitating multi-family rental properties. Local governments or building owners would be required to match the block grant contribution dollar for dollar. The rehabbed units would be available to low income families with housing certificates, a second form of subsidy.

This proposal further cuts federal support for housing rehabilitation. It substitutes grants averaging $5,000 for the Section 8 program which provided an average subsidy twice that high, and it ties those units to people who will receive an inadequately subsidized housing certificate. Unlike current housing vouchers, these new certificates would no longer limit the percentage of income which poor people would devote to rent. Many certificate holders would wind up spending 30, 40, even 50% of their incomes on shelter.

At the same time, the Section 8 substantial rehabilitation program -- which is especially useful for low income housing suffering from very serious deterioration -- and all new construction subsidies would be halted. Rents on existing public housing and subsidized housing would also be raised drastically.

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II. Proposed Changes in FY 1982 Block Grants

Community Development Block Grant/Urban Development Action Grants

The Administration's FY 1983 proposals for Community Development Block Grants (CDBG) and Urban Development Action Grants (UDAG) are basically unchanged, in budget and programmatic terms, from the legislation and appropriations in effect for FY 1982. Budget authority for both years is $3.456 billion for CDBG and $440 million for UDAG.

But CDBG and UDAG are included among the 40 programs which the Administration would turn back to the states beginning in FY 1984. Such a transfer would certainly be the final blow against any efforts to ensure that these funds are targeted to needy people. Interposing the states between the federal and local governments is likely to lead to several deleterious results:

- a further weakening of federal standards on crucial targeting, citizen participation, civil rights, displacement and basic performance issues, similar to the weakening which is already occurring for the "Small Cities" CDBG program which was turned over to the states in 1981;
- eventual elimination of all federal funds for these activities; and
- the building of 50 new state bureaucracies to administer these programs, with which most states have had no experience at all.

HUD's proposed regulations governing the state-operated "Small Cities" program are not yet final, and they may face a congressional resolution of disapproval which could further delay their implementation until as late as mid-June. Nevertheless these regulations are important, because they reflect what HUD would likely propose for an urban CDBG program as well.

The deficiencies in the proposed regulations are:

- they fail to define low and moderate income;
- they dilute the emphasis on the law's requirement that the program principally benefit low and moderate income persons, and they do not provide a means for monitoring compliance with this requirement;

- the proposed performance reporting requirements provide no uniformity of reporting and no correlation with stated activities or national priorities/objectives as spelled out in the law;
- they make no provision for citizen complaints, such as to whom such complaints should be addressed or timetables for response.

The Administration's CDBG proposals have another major drawback. They drop separate funding for several other programs, saying that CDBG will substitute for all of them, while adding other pressures as well. Among these pressures are the following:

- the proposed FY '83 phase-out of weatherization funds from the Department of Energy; since this activity is also eligible for CDBG funding, it is likely to place an additional demand on CD funds, but without additional money to support it;
- Enterprise Zone legislation which gives priority to applicants that show a high level of infrastructure and public service (police, fire, sanitation) commitments to their proposed zones; these demands, again, are likely to lead zone applicants to CDBG as a resource for providing these services at the expense of other CD commitments, especially to existing low/moderate community needs;
- proposals from the President's Housing Commission that housing construction be made an eligible activity under CDBG; given the proposed drastic curbs in other federally subsidized housing construction, this proposal alone could quickly and totally drain any local CDBG entitlement and still not make a dent in the unmet need resulting from the loss of the other housing programs.

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II. Proposed Changes in FY 1982 Block Grants

Community Services Block Grant

Funded at $336.5 million in FY 1982, the Community Services Block Grant would be reduced by nearly 70%, to $112.5 million, in FY 1983. While official budget documents project that between 295 and 520 Community Action Agencies and Limited Purpose Agencies would close down during FY 1982, unreleased documents reveal that closer to two-thirds of the existing 900 CAAs would close.

The $112.5 million would be used as follows:

- $100 million to be made in **monthly** payments to the states -- a 67% reduction from funds available this year.
- $12.5 million for administration, including $6.2 million for close-out activities of grantees.

The Department of Health and Human Services is considering three alternatives on the funding of community economic development, community credit unions, rural loans and rural housing, migrant demonstrations and youth sports programs provided for in the Secretary's Discretionary Fund of the Community Services Block Grant: take no action assuming Congress will provide specific direction to HHS in the next Continuing Resolution for FY '82; offer $20 million for the programs in FY '82; or fund discretionary programs at the full level of $32 million in FY '82. With allocations already made to states under the Community Services Block Grant, any increase in the discretionary fund would reduce state allocations.

HHS has decided that in the 11 states which do not yet use the block grant, the eligible FY '82 grantees will include CAA and limited purpose agencies that received Sec. 221 funds under program accounts 01 and 05; or under rural housing and rehabilitation (Sec. 222); and conduit or delegate agency organizations for migrant and seasonal farmwork programs. However, HHS reports that no Sec. 222 grants were made in FY '81, and, therefore, that rural housing and rehabilitation agencies are not eligible.

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II. Proposed Changes in FY 1982 Block Grants

Social Services Block Grant

The Social Services Block Grant is currently funded at $2.4 billion. For FY 1983, the Administration is proposing to decrease funding to $1.97 billion and include services now provided under the Work Incentive Program, currently funded separately at $245.7 million.

II. FY 1983 Budget Proposals

Aid to Families With Dependent Children

The President's budget for FY 1983 proposes drastic changes in the program of Aid to Families With Dependent Children which would **directly cut AFDC benefit payments to needy children by almost $2 billion**. There would **also be other reductions in federal funding for AFDC** which would stimulate states to reduce benefit levels or make other cuts to adjust for such losses. The AFDC Work Incentive Program would also be eliminated.

The AFDC cuts will impose severe hardships on the poorest women and children in the country, who at best receive only enough for a bare subsistence budget under the program. **Over seven and a half million children in 3.8 million families currently receive AFDC**, and, for the majority, it is used as a temporary stopgap during periods when there are no other means available to them. Moreover, these benefit cuts come on top of last year's cuts which eliminated the supposed "high-income" families from the rolls. Benefits to those AFDC families who manage to obtain jobs were drastically reduced by those cuts, so that a working family that is still eligible has no more net income beyond the AFDC benefit after four months of employment, and has very little "extra" income from working during the first four months.

It is thus even clearer this year than last that the proposed reductions would **cut into the basic food, shelter and clothing needs of desperately poor children**. In addition, for many families, the loss of AFDC also means loss of Medicaid. Moreover, these same families would be the victims of proposed cuts in other programs such as food stamps and housing assistance, so that their overall loss would be even more than the amount of lost AFDC benefits.

The President has also proposed repeal of AFDC as part of "New Federalism.". He has proposed that in FY 1984, the federal government establish a wholly federally funded medical assistance plan to replace the current federal/state Medicaid program, and repeal the current AFDC and food stamp programs, leaving it to the states to determine what, if any, replacement programs they wish to establish. This proposal also includes the "turnback" of 43 other programs to state governments.

It is certainly much too soon to know whether the swap of food stamps and AFDC for Medicaid will receive serious legislative consideration. However, the mere fact that the proposal has been made means that those concerned about the AFDC program must both deal with the proposals for immediate budget cuts **and** keep a watchful eye on the further development of the "swap" and "turnback" proposals.

The Administration's AFDC budget proposals for FY 1983 include the following cuts in direct benefits:

- **States would be required to pay less than full benefits whenever an AFDC recipient lived in a household with others.**

For example, benefits would be reduced or "pro-rated" when two AFDC families live together, or when the children's grandmother or older sister lives with them and their mother, whether or not those relatives had any income, were making any contributions to the AFDC recipients, or were themselves receiving assistance. It appears that at least 800,000 families would be affected by this proposal (families living with "others" other than stepparents). Also, 389,000 of the "other" individuals living with AFDC recipients receive some form of cash public assistance.

The Administration claims that there are economies from shared living expenses in shared households and that they are often not taken into account in AFDC. However states are already permitted to "pro-rate" the shelter portion of the grant when non-recipients in the household have income above their needs. Furthermore, 14 states, including California, Michigan, New York, Oregon and Vermont, already take account of any reduced shelter costs attributable to sharing, by determining aid on the basis of the family's actual shelter payments. Twenty-three of the remaining 36 states pay benefits below full needs, so that a family receives less than what the state believes it requires to meet its shelter needs. Of course, states must also count all income that is actually contributed to the family, and, since last year, must count all income of a stepparent, whether or not any is contributed. (-$174 million)*

- **States would also be required to count the income of any unrelated adult living in the household as income to the AFDC children.**

This proposal, like the one discussed above, would cut benefits regardless of the amount of income that was actually available to the children, and regardless of any evidence of reduced costs as a result of the presence of the unrelated adult. It seems to be aimed simply at a return to the era of "man-in-the-house" rules, when states denied benefits by assuming that visitors were living in the house and contributing their income to the family, and then made midnight raids to find such visitors. (-$69 million)

- **AFDC benefits would be reduced if AFDC recipients received Energy Assistance.**

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*The figures in parentheses after each item are the OMB projections of the federal "savings" from the change. In the case of the direct benefit cuts, the amount of lost benefits as a result of the change would be significantly higher and could be twice as much as this figure.

Energy assistance is provided as a supplement to AFDC and other income in recognition of a poor family's inability to meet soaring energy costs out of its income. States consider income, including AFDC payments, in determining a family's eligibility for energy assistance. Counting energy assistance back against AFDC simply deprives families receiving AFDC of energy aid, while it goes to other families with the same amount of income from a different source. (-$175 million)

o **Family benefits could be reduced when the youngest child reaches 16 by removing the mother's needs from the grant; e.g., a mother and two children would receive a grant for two.**

The Administration says this is because the parent is no longer needed to care for the children and therefore should be seeking work. However, the income loss to the family cannot be met by the mother's simply seeking work -- she must be able to find a job. If she does find a job, there is no reason to treat her children any less favorably than the needy children of other working parents; i.e., to do other than continue to provide for her needs and count her income in determining the amount of aid payable. (-$47 million)

o **Applicants for AFDC would be required to job search for a fixed period before they and their children could receive AFDC, no matter how pressing their need was at the time they applied.**

Recipients who are deemed to be employable are required to job search under current law. Under this proposal, applicants would be required to job search before their applications could be acted on. It is inhuman to impose a waiting period on children who are in dire need, especially when states already take more than 30 days to make decisions on over 25% of the applications received. Furthermore, the Administration's savings figures suggest that the fact of obtaining a job during job search would be a disqualification for aid -- that the $30 and 1/3 earnings disregard might not be applied to earnings received from any such job. If the mother doesn't find a job, her family suffers from the prolonged delay in getting assistance; if she does find a job, her family suffers during the period in which they are without income and also loses the supplemental AFDC and attached Medicaid coverage to which they would otherwise be entitled. (-$145 million)

o **States would be required to establish work relief programs and to limit coverage under their AFDC-U programs to families of unemployed parents who were working in a work relief assignment.**

All states would have to have some work relief programs. States that wish to aid needy unemployed workers would have to establish large-scale statewide programs, since inability to provide a work relief slot for the unemployed parent would necessitate denial of aid to the family.

Individuals assigned to work relief would not receive salaries, but would simply labor for a public or private non-profit employer in a second class or worse status, without any employee rights -- Social Security coverage, collective bargaining, advancement to other jobs -- or fringe benefits — sick leave, vacation, health insurance, pensions. Since they would not receive a salary, they would not benefit from the earnings disregard, and thus could not be better off by working; but they would be worse off unless all their expenses were paid for. It is not even fruitful to debate whether or not these projects could be turned into useful training programs, since there is no funding provided for such a purpose.

The projected savings are puzzling, since families would continue to receive their AFDC benefits while in work relief, and there are increased administrative costs. Where then does the Administration find savings? Is it assuming that erecting new hurdles to the receipt of aid will insure that there will be some otherwise eligible families who won't clear the hurdles? (mandate work relief: -$49 million; limit AFDC-U: -$86 million)

- **Minor children, other than SSI recipients, who have income of their own, such as Social Security benefits based on the earnings of a deceased parent, would be forced to contribute that income to meet the needs of their siblings.**

This proposal would deprive children living with half, full or step sisters and brothers of some of their personal income, even if it is no more than they personally need. For example, a child receiving Social Security benefits would not have an opportunity to try to save some of that money for educational needs, even though she can no longer receive either Social Security benefits or AFDC for that purpose. Similarly, where the child's income comes from a personal injury award designed to make up for some damage caused by a tragic accident, she may well need the full amount to meet her increased needs as a result of the accident. (-$63 million)

- **Children of absent servicemen would be denied benefits, despite the fact of their poverty.**

The current Administration first tried to cut off benefits to children of servicemen during its California tenure but was blocked by a United States Supreme Court ruling that a parent who was absent from the home because of military service was as absent as any other, and therefore that his children could not be denied aid if they were otherwise needy. The Administration now argues that denying aid to such children would stop "military personnel" from shifting their support responsibility to the public. However, denying aid to the children will not insure that the absent parent will, or can, provide them with adequate support. Indeed, the California children in the aforementioned case **were** receiving allotments from their absent parents, but these amounts were far below their needs because of their parents' low pay. (-$16 million)

- **The program of Emergency Assistance for Families would be eliminated.**

Supposedly the energy assistance program would be broadened to allow aid for the types of emergencies that are now met under EAF. However, there would clearly be no requirement that the energy assistance program pay any specific amount of aid for these items to poor families with children under 21, the current scope of EAF. Even if there were such a requirement, there would nonetheless be a diminution of the aid available to such families, since the Administration is proposing that funds for the energy assistance program be cut over $500 million below 1982 outlays. (-$60 million)

- **States would be required to round benefits to the next lowest dollar and would be barred from paying benefits for any period prior to the date of application.**

Currently, states are permitted to pay benefits back to the first day of the month of application, and a few states do so. Families do not show up at the welfare center the day after they become poor, and paying back to the first day takes this into account: The family gets at least a full month's grant to help deal with the bills they accumulated in that first month. (round benefits -$10 million; date of application -$14 million)

The Administration is also proposing the following reductions in federal funding:

- **Federal matching would be reduced if state error rates exceed 3%, and this tolerance level would decline 1% a year to 0 in FY 1986.**

This is simply a straightforward reduction in federal matching. There is no way in which errors can ever be totally eliminated, and there is a point at which the money spent to further reduce errors is more than the cost of such errors. Tying a reduction in federal matching to error rates is particularly pernicious, since it encourages states to take any action necessary to avoid overpayments and payments to ineligibles, including risking erroneous denials and terminations, and underpayments. (-$234 million)

- **Federal matching for the Work Incentive Program would be eliminated.**

Despite the Administration's repeated emphasis on work requirements for AFDC recipients, it is proposing to eliminate the only federally funded employment and training program specifically earmarked for AFDC recipients. Admittedly, the program has had only limited success in providing opportunity for training and in finding jobs for recipients, but that seems the inevitable result of the fact that it has never been funded above $365 million. Simply eliminating the program without providing any federally funded replacement obviously is not going to provide any more training or find any more jobs. (-$245 million)

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II. FY 1983 Budget Proposals

Food Stamps

The Administration is proposing $2.8 billion in new food stamp cuts in fiscal 1983.* These cuts would be in addition to more than $2 billion a year in food stamp reductions enacted last year. The combined total of nearly $5 billion in reductions from last year's cuts and from the new proposals approximately equals the dimensions of the cuts proposed last year by Senator Jesse Helms (R-N.C.).

The new proposals would hit particularly hard at the elderly and disabled, the working poor and state and local governments. The Congressional Budget Office (CBO) estimates that 92% of all elderly and disabled food stamp households (or nearly 2 million households) would have benefits reduced or terminated; 26% of the elderly and disabled households -- or 560,000 households -- would either be terminated or would have benefits cut to such low levels ($1-$5 a month) that CBO expects them to drop out of the program. An additional 66% -- or over 1.4 million elderly and disabled households -- would still receive some food stamps but would have the amount of stamps cut back. Overall, CBO estimates that 25% of all food stamp benefits now provided to elderly and disabled households would be wiped out.

According to CBO, 95% of the working poor would be terminated or reduced, and 23% of working households would either be terminated or would drop out because their benefits would be reduced so much. An additional 71% would remain in the program but have their benefits reduced. Working families would lose an average of $684 a year in food stamps. Overall, 41% of all food stamp benefits provided to working households would be eliminated.

CBO estimates show that 85% of the entire food stamp caseload -- or 6.35 million households with about 17 million persons -- would be terminated or have their benefits reduced.

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*The Administration budget shows a net reduction in food stamp costs of $2.3 billion, rather than $2.8 billion. This is because benefit cuts the Administration is proposing in other programs -- such as the Aid to Families with Dependent Children program (AFDC) -- would reduce families' incomes and thereby make them eligible for some additional food stamps. The Administration estimates that the cuts it is proposing in programs such as AFDC and SSI would result in $500 million more in food stamp benefits for affected families. As a result, the net change in the food stamp budget is $2.3 billion.

Most of the families and elderly individuals who would be affected have very low incomes. The most recent USDA survey data shows that about 90% of food stamp households have gross incomes below the poverty line during the period they receive food stamps. The average household has a gross income of $325 a month and average cash assets of $66 while it receives stamps. The average food stamp benefit is now 43 cents per person per meal.

The new proposals also have severe impacts on state and local governments. Proposals to bill states for all errors over 3%, to reduce the federal share of state costs in administering the program and to end federal funding for state costs in administering food stamp work requirements would shift about $700 million in food stamp costs from the federal government to state and local governments in FY 1983, and would shift larger amounts in succeeding years.

The Administration's specific proposals for achieving budget cuts in the Food Stamp program are as follows:

- **Abolishing the earned income deduction.**

This would cut benefits substantially for the working poor. Currently, 18% of gross earnings are deducted in figuring food stamp benefits in order to compensate for taxes and work-related expenses. The Administration is now proposing to abolish this deduction altogether and use gross earnings in figuring food stamp benefits. This amounts to assuming that funds withheld for taxes are actually available to buy food.

As a result, working families will get fewer food stamps than families who have the same level of disposable income but do not work. At present, if two families live next to each other and one gets $5,000 a year from welfare or unemployment compensation, while the other family works and receives $5,000 in take-home pay, both families get about the same amount of food stamps. Under the new Administration proposal, however, the family that works will get $300 to $400 a year less in stamps than the family on welfare or unemployment insurance, because the working family's benefits will be tied to its gross wages, with no consideration given to the fact that a portion of its wages are withheld as taxes or consumed by work-related costs.

This proposal will result in a $606 million-a-year benefit reduction -- with the entire reduction concentrated in that 17% of all food stamp families who work.

- **Raising the "benefit reduction rate" from 30% to 35%.**

This would cut benefits by $978 million a year. Most families would lose some portion of their benefits.

Currently, a household is expected to use 30% of its disposable income for food. The difference between the cost of the Thrifty Food Plan (the USDA's minimum diet plan) and 30% of the household's income after deductions is provided in food stamps.

Under this proposal, a household would be expected to spend 35% of its disposal income on food. Food stamps would now equal the difference between the cost of the Thrifty Food Plan and 35% (rather than 30%) of the household's income after deductions. In other words, **households would have their food stamp benefits cut by an amount equal to 5% of their disposable incomes**.

This would result in a major across-the board benefit cut. Most families would have their benefits reduced, and in some cases the proportion of benefits lost would be extremely large. This would be especially true where elderly persons are involved. For example, an elderly couple on Social Security or SSI with a total income of $5,000 a year would lose 57% of its food stamp benefits -- its benefits would fall from $336 to $144 a year.

In addition, this proposal would further reduce benefits for the working poor. The combined impact of this proposal and the proposal to eliminate the 18% earned income deduction would be massive. A three person family whose breadwinner earns the minimum wage (which is less than $7,000 a year, and is below the poverty line) would lose nearly $700 a year in food stamps, as its benefits were cut from $66 to $9 each month.

The proposals to raise the benefit reduction rate and eliminate the earned income deduction would also increase "marginal tax rates" on the working poor. For each additional dollar earned by a working mother on AFDC and food stamps during her first four months on a job, between 85 cents and one dollar would be taken away (through reductions in AFDC and food stamp benefits, and through increases in Social Security taxes and income taxes). After her fourth month on the job, she would actually lose more than $1 through benefit reductions and tax increases for each additional dollar she earned -- and would be worse off if she worked harder and increased her earnings. Her marginal tax rate would exceed 100%. (The distinction in the marginal tax rates between mothers in their first four months on the job and mothers who have worked more than four months is due to an AFDC provision enacted last year that treats these two categories of working mothers differently.) By contrast, wealthy individuals in the highest income brackets lose no more than 50 cents of each additional dollar in income -- a feature of the tax code designed to maintain incentives.

There can be little question that these new food stamp proposals will exacerbate disincentives to work for low-income families.

- **Eliminating the $10 minimum benefit for one and two person households.**

Currently, one and two person households who meet the food stamp eligibility tests receive at least $10 a month in food stamps. This provision primarily benefits elderly and disabled persons and was designed (the USDA's minimum diet plan) and 30% of the household's income after deductions is provided in food stamps.

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There can be little question that these new food stamp proposals will exacerbate disincentives to work for low-income families.

- **Eliminating the $10 minimum benefit for one and two person households.**

Currently, one and two person households who meet the food stamp eligibility tests receive at least $10 a month in food stamps. This provision primarily benefits elderly and disabled persons and was designed to assure that elderly and disabled households who are poor enough to qualify for stamps receive at least a $10 monthly benefit.

The Administration is now proposing to repeal this provision and thereby to reduce benefits an additional $138 million a year. Under its new proposal, virtually all households who now receive the minimum benefit would lose all their stamps and be terminated from the program. Most of those who would be dropped would be elderly or disabled households. Some of those dropped would be elderly persons living alone on a Social Security or SSI check of as little as $285 a month, or less than 80% of the poverty line. Overall, the majority of those terminated by this proposal appear to be elderly women living alone.

Several hundred thousand additional households would have their benefits reduced to less than $10 a month by the combined impact of the increase in the benefit reduction rate and the repeal of the minimum benefit provision. Most of these households, too, are elderly or disabled.

- Reducing food stamp benefits if a family receives energy assistance payments.

The Administration is proposing to count low income energy assistance payments as though they were regular income. The result is that food stamp benefits would be cut up to $5.25 for every $10 a family receives in low income energy assistance payments, and food stamp families would lose $231 million a year in stamps. This would work particular hardship on households in the northern part of the country.

The Administration contends that energy assistance payments are discretionary payments that are available for food, and therefore food stamp benefits should be cut if a family gets energy payments. This contention is not correct. The energy assistance program was initiated in 1978 to help low income families offset the steep increases in energy bills resulting from the deregulation of oil prices and from OPEC price hikes. Energy Department data show that from 1977 to 1980 alone, energy costs incurred by low income households increased by $6 billion a year. The energy assistance program, funded at about $1.75 billion a year, offsets less than a third of the price increases. It does not provide additional money to buy more food. Moreover, in a large number of states, the energy payments are sent directly to utility companies to apply against a family's bills, and the family never so much as handles the money.

Under this proposal, all families receiving energy payments will lose some food stamp benefits. Some families will even be made ineligible for food stamp benefits in the winter months when the energy payments are provided -- because when the energy payments are added to their regular income (as the Administration proposal requires), they would be lifted over the food stamp income limits.

This proposal will have a particularly sharp impact on elderly and disabled persons, since about 40% of the recipients of low income energy assistance are elderly or disabled. Some of these persons would be removed from the food stamp program in winter months.

This proposal will -- in a very real sense -- place some poor families in the dilemma of having to choose between adequately feeding themselves or adequately heating their apartments.

- **Changing food stamp rounding rules.**

The Administration is proposing to save $117 million a year from changes in rounding rules used in computing food stamp benefits. The current rounding rules are based on the standard rounding rules used by the Internal Revenue Service and most other institutions. Computations yielding a result of 1-49 cents are rounded down to the next lowest dollar while results from 50-99 cents are rounded up.

The Administration is preparing to change the rounding rules so that recipients always lose. In computing the basic food stamp allotment (which is based on the Thrifty Food Plan), as well as the food stamp standard and shelter deductions, all cents would be dropped. For example, if the cost of the Thrifty Food Plan was $249.90, the food stamp allotment would be $249 rather than $250. In addition, when each individual household's benefits are computed, the cents would again be dropped. A household qualifying for $50.95 would receive $50 rather than $51.

However, an exception would be made in computations involving household income -- because in this case dropping all cents would benefit recipients. The general rule in the new proposal is to select for each stage of the computation whatever rounding rule produces the lowest benefits. The end result is that this proposal amounts to a loss in benefits of $1 to $2 a month for most households. This proposal essentially is an across-the-board cut on a small scale.

- **Making states pay for errors over 3%.**

In 1980, Congress enacted a provision under which states with high error rates must steadily reduce their error rates or be subject to fiscal sanctions. States are required to reduce their error rates by roughly one-tenth each year. Recently, USDA issued $16.5 million in sanctions against 14 states for failing to achieve sufficient error rate reductions.

The Administration is proposing to replace the provision enacted in 1980 with a new provision that would result in virtually every state in the country being sanctioned. The Administration is proposing that states reimburse the federal government for all errors over 3% in FY 1983. States would be fined an estimated $600 million next year. In FY 1984, states would be sanctioned for all errors over 2%. In FY 1985, states would pay for all errors over 1%, and in subsequent years for all errors over zero. The Administration is submitting similar proposals in the AFDC and Medicaid programs.

tially more difficult for states to achieve the extremely low error rates needed to avoid sanctions.

In addition, states experiencing caseload increases due to rising unemployment would also face serious problems. Administrative costs would rise in these states as their participation climbed due to the rise in the number of jobless persons, but the states would receive no additional federal funds to help defray any part of these increased costs.

- **Eliminating funds for administration of work registration and job search requirements by state employment service agencies.**

The Administration is proposing to end the allocation of funds to state employment agencies for the administration of food stamp work registration and job search requirements. In FY 1982, $65 million was provided for this purpose. It is unclear whether state welfare agencies would take over this function or whether state employment service offices would continue to carry it out. This decision would evidently be left up to the individual states -- but in either event, the states would have to assume 100% of the costs of administering these requirements.

- **Job search at application.**

The Administration is proposing to require employable food stamp applicants to search for jobs during the period their food stamp applications are being processed, rather than (as at present) after they are certified as eligible for food stamps. The current requirements are designed so that administrative costs do not have to be expended in administering job search requirements for applicants who are found to be ineligible for other reasons, and who never receive stamps. The new proposal -- by requiring states to administer job search requirements for such persons -- could increase administrative costs and paperwork.

The new requirements would be added at the same time that funding for state employment service agencies would be terminated, and that federal participation in any new administrative costs borne by state welfare agencies would be ended through imposition of a "capped" block grant for state administrative costs. All administrative costs of implementing this new requirement would thus have to be borne by the states. The proposal is expected to have a very minor fiscal impact. The Administration budget assumes a savings of $15 million for the federal government, but it does not indicate how much additional administrative cost would be incurred by states.

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II. FY 1983 Budget Proposals

Medicaid

The Reagan Administration is proposing to reduce the federal spending for Medicaid another $2.2 billion in FY 1983. Including the states' share of reductions, this would mean a 10% overall cut. The proposed cut is on top of a 4% cut in federal dollars for FY 1982.

Specific proposals:

1. **Mandatory co-payments for all recipients**

   - $1.00 payment for office visits or in-patient care day for the poorest recipients.

   - $2.00 per in-patient day and $1.50 per out-patient visit for people with incomes slightly above cash assistance levels.

Studies have shown co-payments discourage people from seeking needed care. People will postpone less expensive preventive care and be forced to consume more extensive and more expensive care. For example, an expectant mother may not have the cash to obtain nine months of prenatal outpatient care, which is less expensive for the Medicaid program than the intensive hospital care that a newborn baby who received no prenatal care could need.

No exceptions are proposed for essential services or for emergency services. The sickest families would pay the most because of proposed ceilings.

For families with low incomes, however, the burden of co-payments can be devastating. In Texas, for example, a mother with two children receives a maximum AFDC payment of $116 per month. If one child is hospitalized for a week, co-payments for each physician visit, for each in-patient day, and for each out-of-hospital prescription drug could easily consume 50% of the family's meager income.

2. **A 3% cut in federal matching funds for all services to the medically needy and for optional services**

This proposal merely shifts the burden of funding to the state. It says "do the same job and we will pay you less."

As a result, states would reduce or eliminate their medically needy programs for the working poor. Without Medicaid, these people may be forced back on cash assistance programs.

States also are likely to eliminate the so-called "optional services" which are not "optional" to persons who need them. These services include such basic care as prescription drugs, eyeglasses, dental services, out-of-hospital clinic visits and institutional care for the mentally retarded.

3. Relative responsibility for nursing home residents

This provision would allow the states to require adult children to pay part of the nursing home costs of their parents.

Medicaid patients already often have difficulty in being admitted to nursing homes. Discrimination against Medicaid recipients would be exacerbated by creating a category of recipients who have children who can pay, and a category of recipients who do not have children. Individuals may have to become dependent on their adult children and have their eligibility for nursing home care jeopardized if their relatives do not pay. Children of nursing home residents are themselves often elderly, often on fixed income and unable to contribute.

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FY 1984 "Swap"/Repeal Proposal

The Reagan Administration has proposed a "transfer" of food stamps and AFDC to the states, with the federal government picking up the states' share of Medicaid costs in return. Unfortunately, this proposal -- upon close examination -- poses serious problems.

- The proposal does **not** continue food stamps and AFDC and simply shift the cost of financing these programs to the states. It terminates food stamps and AFDC as we know them today. While final details of the plan have not been worked out, and it is possible that some temporary "maintenance of effort" provision could be included, it seems clear that states would not have any obligation (at least not after the first several years), to fully utilize the state funds formerly spent on Medicaid for the subsistence needs of low income families. States would eventually be able to shift some of these funds to highways, to reducing the state's deficit or to any other purpose.

- It is extremely likely that many states (probably most states) would shift some of these funds away from low income families. The states face major budgetary pressures and competing demands from many other, more powerful constituencies. The experience of the past 15 years illustrates that AFDC and food stamp recipients do not fare well under state funding decisions, and that they would be in particular jeopardy under the new Administration proposal.

- In a number of states -- especially in the South -- AFDC benefits remain extremely low today. In Mississippi, a mother and two children with no other income receive a maximum AFDC grant of $96 a month ($1,150 a year), or 16% of the poverty line. In Texas, a mother and two children receive $116 a month. In all but two southern states, the maximum payment to a three-person family with no other income falls below $200 a month, and in half the southern states it is less than $150 a month.

- Low benefit levels are not limited to the southern states; 22 states provide maximum payments of less than $285 a month (or less than 50% of the poverty line) to a mother and two children with no other income. Ten of these 22 states are outside the South.

- Despite the widely heralded gains from the Voting Rights Act and the reported evolution in attitudes at the state level, AFDC grants are actually lower today (when inflation is taken into account) than they were 10 years ago. A study conducted at the Department of Health and Human Services found that when inflation is taken into account, AFDC benefits nationwide declined 24% between 1969 and 1980. Since 1970, only two states have increased AFDC benefits as much as the inflation rate, while over half the states failed to increase benefits to reflect even half of the increase in the cost of living.

- The situation is now worsening as state budgets tighten. A Congressional Research Service analysis shows that from 1980 to 1981, over 40 states failed to increase benefits enough to reflect even half of the rise in the cost of living, over 30 states failed to provide for any increase at all, and six states actually reduced benefits despite double-digit inflation.

- The AFDC experience is of great concern, because numerous states have kept AFDC benefits extremely low, despite the fact that over half of these benefits are federally funded, and that each dollar in state money brings in at least one dollar in federal money. If AFDC and food stamps are 100% state funded (as the new proposal envisions), and each state dollar spent brings in no additional federal dollars, then the pressure to shift substantial sums to other state functions with more powerful constituencies will be overwhelming.

- The history of the food stamp program in the 1960s is also instructive. At that time, states set their own income limits for food stamps, even though food stamp benefits were entirely federally funded. Many states -- especially those in the South -- set very low income limits. South Carolina's income limit, for example, was not much above 50% of the poverty line.

- Even worse, in the late 1960s, several hundred counties did not operate a food stamp program. Some of the poorest counties in the country declined to run the program, even though the federal government paid the full costs of food stamp benefits.

- Due in significant part to this state and local reluctance to mount adequate food assistance efforts, major problems of hunger and malnutrition existed among the poor. They came to public attention in the late 1960s and shocked the nation at that time. In some parts of the South, doctors working with HEW's "Ten State Nutrition Survey" found that low income children were suffering from nutritional deficiency diseases at rates comparable to the rates in underdeveloped countries. When doctors returned to the same areas 10 years later, they found poverty-related malnutrition to have been dramatically reduced. The doctors credited the food stamp program as the major reason for this progress, and they called the food programs the most successful of all anti-poverty programs of recent years.

o The most important steps in alleviating the alarming degree of hunger and malnutrition found in the 1960s were taken by a Republican President, Richard Nixon. It was President Nixon who ended state income limits and benefit levels in the food stamp program and instituted national standards. President Nixon took these steps because state and local governments were failing to meet the need. If states failed to meet the need then -- when the federal government paid the bill -- what reason is there to believe they will meet the need in the future, when they would have to use state dollars to fund these efforts, and when they are facing severe budget crunches?

o This problem is made even more serious by the fact that virtually no state would mount a food stamp program of its own, due to the administrative problems of trying to run a food stamp program at the state level. For a state to set up its own food stamp program, the state would have to print its own stamps, authorize and police its food stores, safeguard the stamps from counterfeiting, arrange for their destruction after use, etc. All of these tasks are now performed by USDA on a national scale, and the administrative costs and burdens for an individual state to take them on are prohibitive. As a result, rather than run their own food stamp programs, states would be likely instead to increase welfare checks enough to partially offset the loss of food stamps. However, less food would probably be consumed.

o This problem would be exacerbated over time as food prices rose. Unlike AFDC benefits which are set at the state level, food stamp benefits have been regularly adjusted by the federal government to keep pace with the cost of food. This has been done to assure that food stamps continue to provide the same level of food purchasing power. Few if any states would be likely to retain this feature if the food stamp program were ended. The consolidated cash benefits that would replace AFDC and food stamps would likely fall far behind inflation, just as AFDC grants have in the past decade. This means, quite simply, that as the years go by, low income families will have less and less to eat.

- The end of food stamps as a separate program -- and its likely incorporation into states' cash welfare systems -- raises a number of additional concerns. Can states be expected to provide benefits to persons with incomes above their current limits for welfare (which in a number of states are at or below 50% of the poverty line)? If not, millions of persons -- especially the working poor -- will lose their food stamps and receive nothing in return.

- Can states be expected to provide benefits to those types of families and individuals whom they have up until now refused to include in their welfare programs? In about half of the states, two parent families with children may not receive welfare, no matter how poor they are. Can we be sure these states will now change course and provide benefits to those families? If not, these families, too, will lose food stamps and receive nothing in return.

- What about childless couples and non-elderly individuals who live alone? In many states they receive no welfare and can now get only food stamps. What will happen to them? Will 55-year-old widows be able to receive any support?

- Behind all the questions lies a simple fact -- the food stamp program is the only program in America that is available to all who are poor -- regardless of age, sex or family composition. The food stamp program is the most basic safety net now provided by any level of government. It assures that all who have low enough incomes may at least be able to secure a minimum diet and avoid hunger and malnutrition. The food stamp program has been described by some (including former Nixon Administration welfare expert Richard Nathan and Republican Senator Robert Dole of Kansas) as the most important social program since Social Security. If the program is ended, this safety net will be taken away -- and it is virtually inevitable that any state-funded replacement programs will contain gaps through which many poor families and individuals will fall.

- The problem is likely to be especially severe in the South. Southern states now provide the lowest AFDC benefits and the most restrictive AFDC coverage. They also had the lowest food stamp income limits in the 1960s and the highest degrees of hunger and malnutrition at that time. Yet southern states are also the poorest states in the nation in per capita income and the least able to finance adequate subsistence programs for their low income populations. This is of particular concern in a state like Mississippi -- which has the smallest revenue base and the lowest per capita income in the nation, and in which one in five residents now receives food stamps.

- If southern states significantly reduce benefits and coverage, however, this will have extremely undesirable effects on all states. Currently, one of the most important functions played by the food stamp program is to help "fill the gap" between states with low AFDC payments and states with higher payments. Since food stamp benefits are tied to income, recipients in states with low AFDC benefit levels receive more food stamps than do recipients in higher payment states. As a result, the disparity in total benefits between recipients in different states is lessened. If, however, the food stamp and AFDC programs as they now exist are ended, and southern states sharply reduce benefits, then the disparity among states will grow significantly. This, in turn, is likely to spur renewed migration of low income, unskilled persons from the South to northern urban areas. At a time when many northern cities and a number of northern industrial states are in economic decline, they would receive an influx of new recipients dependent on state support. This could pose severe problems for these cities and states, especially since they would now have to support these new arrivals entirely with state dollars.

- The problems would be exacerbated during periods of high unemployment. Currently, when unemployment rises in a city or a state, more persons in that area enroll in the food stamp program. This serves two purposes: it allows unemployed families to obtain adequate food without further draining state or local tax revenues, already depressed because of the economic downturn; and it also brings more federal money into the depressed local economy. However, under the new Administration proposal, there would be no federal response to rising unemployment, because the federal government would no longer be financing a food stamp program. This means that when unemployment rises, state and local governments would have to **cut back** on assistance rather than expand it -- because the state revenue base to finance these programs would be contracting. This would not only adversely affect low income recipients of the programs, but could also result in some further depression of already weak state and local economies.

- Finally, the Administration's proposal to federalize Medicaid could, in some states, further intensify the problems created by the turnback of AFDC and food stamps. In Medicaid, there is great variation among states in the income limits used, in the medical services provided, and in whether various categories of persons (two-parent families, persons living alone, childless couples, families just above the AFDC income limits) receive Medicaid coverage.

> It will not be feasible (either politically or legally) for the Medicaid program to be financed entirely by the federal government and to maintain the vast disparities in coverage and benefits now provided. It is virtually inevitable that in states now providing a more extensive Medicaid program, significant aspects of the current program will not be supported when the federal government takes over. If these states choose to maintain existing Medicaid standards, they will have to use state dollars to bridge the gap between their current Medicaid program and a smaller scale federal program. This would reduce (in some cases by a very substantial amount) the funds available to the state to replace AFDC and food stamp benefits -- and would thereby lead to further reduction in those benefits. Of course these states could decide not to maintain current Medicaid standards -- but then, many low income families and individuals (especially the working poor) would lose some or all of their Medicaid benefits. Either way, low income persons end up the losers.

Conclusion

The conclusion seems inescapable that millions of low income Americans would eventually have their already low standards of living reduced if the "transfer" proposal becomes a reality. In some places, the reductions could be dramatic, and the types of hunger and malnutrition problems found in this country only 15 years ago could return to some extent. The gap between poor Americans and those in higher income brackets -- already increased by last year's budget and tax bills -- would be expected to widen further.

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II. FY 1984 "Turnback" Proposal

The Reagan Administration's "New Federalism" proposal to shift 43 federal programs to the states beginning in FY 1984 drastically accelerates the trend -- begun with the FY 1982 and 1983 block grants -- to eliminate federal responsibility for human and community needs. The list of programs to be "turned back" to the states includes those in existing and proposed block grants, as well as a number of key, targeted programs that advocates were able to save from block grants last year.

Clearly, the block grants proposed for FY 1983, in combination with the proposed deep cuts in funding for social programs, would set the stage for this radical withdrawal of federal responsibility for human needs. The Administration's plan would first hold constant, then decrease and eventually eliminate federal funding for the 43 programs between FY 1984 and FY 1991.

While the Administration's FY 1984 "New Federalism" initiative should not be allowed to divert attention from the immediate threat of proposed budget cuts and block grants for the coming fiscal year, it is worthy of attention and concern. In reality, the two issues are interdependent: if further budget cuts go through -- even if Congress does not go along with all of them, as early bipartisan reaction indicates may be the case -- the states' financial liability for the 43 programs would be reduced correspondingly, making the proposal more attractive. Conversely, if the proposed cuts do not pass, the entire "turnback" program could be in jeopardy.

Another concern is that this radical proposal could make last year's block grants look moderate and acceptable by comparison, setting them up as models for a "compromise" this year, despite criticisms that they lack sufficient funding, targeting and civil rights and accountability protections.

The program shift would begin in FY 1984, when federal funding for the 43 separate programs would be replaced by a "trust fund" of $28 billion. The trust fund would be comprised of revenues from excise taxes on gasoline, alcohol, telephone service and tobacco, plus part of the windfall profits tax on oil.

Apparently last year's block grant debate influenced the design of the new proposal: The Administration announced it more than a year prior to its proposed implementation, thereby avoiding criticism that states would not be prepared for their new responsibilities; and the trust fund clearly is an attempt to reassure states that they will get the funds to pay for their new responsibilities.

A close look at the trust fund proposal, however, reveals its deficiencies. The $28 billion is 15% below current funding levels for the 43 programs, and well below their 1980 funding levels. In addition, the trust fund would remain at $28 billion per year for four years, with no increases for inflation or need. Each state could draw on the fund to support as many of the 43 programs as it chose, with no requirement that funding for various programs reflect previous patterns.

A White House release explains the program this way:

> "During a transition period of four years, FY '84-'87, the states can use their trust fund money in either of two ways. If they want to continue receiving some or all federal grants that are designated for turnback, they can use their trust fund money to reimburse the federal agencies that make those grants and abide by federal conditions and rules. Or, to the extent they choose to forego the federal grant programs, they can receive their trust fund money directly as super revenue sharing, to be used for these or other purposes. **There will be a mandatory pass-through of part of the super revenue sharing funds to local governments**. (Emphasis added.)
>
> "Beginning in FY '88, the more than 40 federal turnback programs...will cease to exist, and the states will be in complete control of their own priorities."

At that point, too, both the trust fund and the federal excise taxes supporting it will phase out at the rate of 25% per year, until they disappear in FY 1991. As federal support declines, states could choose among several options -- imposing their own excise taxes, using other state revenues or cutting programs.

The programs to be transferred to the states beginning in FY 1984 include Community Development Block Grants, which have not only channeled funds to low income neighborhoods, but which have also provided excellent rallying points around which community groups have coalesced. Thus, the repeal of this program, among others, would be a dramatic setback for the neighborhood movement.

The programs to be eliminated are the following:

Block Grants/Revenue Sharing Programs

General Revenue Sharing
Community Development Block Grants

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The programs to be eliminated are the following:

Block Grants/Revenue Sharing Programs

General Revenue Sharing
Community Development Block Grants

Comprehensive Employment and Training Act
Social Services Block Grant
Community Services Block Grant
Low Income Energy Assistance
Primary Care Block Grant
Maternal and Child Health Block Grant
Alcohol, Mental Health and Drug Abuse Block Grant
Crime Prevention Block Grant
State Education Block Grants
Preventive Health and Health Services Block Grant

Other Programs

Legal Services
Child nutrition
Child welfare
Adoption assistance
Foster care
Runaway youth
Primary care R&D
Black lung clinics
Migrant health clinics
Family planning
WIC
Vocational rehabilitation
Vocational and adult education
WIN
Urban mass transit construction
Urban mass transit operating expenses
9 other transportation programs
4 water, sewer, waste treatment and community facilities programs
Occupational safety and health state grants
Urban Development Action Grants.

(See Appendix A, page 131, for a chart showing individual states' losses that would result from the "Swap" and "Turnback" proposals.)

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III. IMPACT OF THE BLOCK GRANTS

The test of block grants is not how they look on paper or how they sound in principle, but how they affect real people and real communities. The new block grants are likely to have a number of devastating consequences for individuals and communities in need. The following pages describe some of these likely consequences for states and their governors, cities and local officials, rural areas and vulnerable constituencies, including local community organizations.

III. IMPACT OF THE BLOCK GRANTS

IMPACT ON STATES

The new block grants have confronted states and their governors with the following problems:

1. **Consistently declining levels of federal support**

About one-third of the $35 billion cut in federal spending to date, or $13 billion, has come from programs run by states, accelerating a reduction in the federal government's support of state and local governments. In 1978, nearly two-thirds of federal aid was directed to state and local governments, a percentage that will decrease to around 50 percent in 1984. This pattern, which is likely to continue, reflects the impact of the "New Federalism" on states.

Moreover, it is clear that the Reagan Administration's plans for FY 1983, 1984 and 1985 will significantly reduce, and possibly eliminate, funding for block grants. President Reagan told the National Association of County Officials on March 9, 1981, that his real agenda was to eliminate the federal tax base for domestic expenditures, i.e., eliminate financial support for those programs proposed for inclusion in the block grants.

The President's determination to control federal spending, maintain the large 1981 personal and corporate tax cuts, rapidly accelerate defense spending and not cut Social Security have forced him to focus more cuts on the remaining entitlement and discretionary programs. This means that from 1983 through 1985, block grants will be subjected to cuts below their already reduced 1982 levels, and that the Administration might even seek to completely terminate block grants due to the pressure of competing fiscal objectives.

As a result, it is no surprise that Governor Richard A. Snelling (R-Vt.), chair of the National Governors' Association, has described the Reagan program as an "economic Bay of Pigs."

2. **Elimination of national constituencies for federal programs**

The elimination of categorical programs has also eliminated national constituencies for federal financial support. Interest groups now turn their attention to near-term allocation decisions at the state and local levels, and to remaining categorical programs. Consequently, governors have become the sole constituency supporting block grants with the Congress and Executive Branch, making it easier to continue reducing federal funding for major domestic programs. This phenomenon has already been observed with the new education block grant, which has been cut substantially since it was enacted just a few months ago.

3. **Intense political pressure about allocation choices**

The block grants decentralize not only program authority, but also political competition for resources. Competing groups that have vied for federal appropriations will now devote their attention to allocation decisions by state and local officials. Competition will be especially intense, as the block grants include 20 to 25% funding cuts, and many groups will have to fight simply to maintain services they believe are essential.

As a consequence, sitting governors are being placed in numerous no-win situations. In being forced to make very unpopular choices they will become the "bad guys," unable to blame federal bureaucrats for cutting or eliminating local programs. This situation will become even more difficult and politically dangerous for governors if President Reagan and the Congress keep cutting the block grants until all federal appropriations are terminated. This will leave states with a Hobson's choice between dropping basic services or raising taxes.

4. **Severe staffing problems**

Many state government staff positions have been funded in whole or in large part with federal funds allocated to the states through categorical programs. As these categorical programs are eliminated, and available resources cut, the support for many staff positions lessens or disappears.

At the same time, block grants have made it necessary for state governments to assume many program responsibilities formerly performed by federal staff. Functions shifting to the states include program direction, auditing, grants management, planning, rule-making, evaluations and grants allocation. In order to handle these new responsibilities, governors must establish effective and credible planning, allocation and evaluation systems that will enable them to defend their decisions, especially in the face of the intense competition for funds among local groups. This will require strong, sophisticated and well-staffed state agencies, precisely when federal support for state staffs is diminishing.

5. **State financial limitations**

Governors will be under tremendous pressure to find additional state resources for both programs and staff. In many instances, governors will request more funds from state legislatures, but it is doubtful that the political climate in most states will support increasing taxes in order to continue services slated for reduction or elimination.

State staffing needs will be especially urgent at the beginning of the block grant programs, when states confront major start-up and implementation issues at the same time that federally funded staff positions disappear. Unless a governor wants to risk charges of fraud, waste and mismanagement, he or she will be forced to request larger state appropriations to meet staffing requirements.

On the program side, federal budget cuts associated with the block grants have left large gaps in such vital services as day care, community development, community mental health, vocational rehabilitation and emergency energy assistance at the same time that service needs have increased due to growing populations, inflation and increasing unemployment. As a result, many governors will have to request additional support from their state legislatures simply to meet the most basic needs. Progressive governors, sensitive to the social and economic needs of disadvantaged constituencies, will feel particularly pressed.

These state fiscal pressures will come at an especially difficult time for both governors and state legislatures. State and local revenues will decrease because of:

- the federal budget cuts described earlier.
- the effect of the new federal tax reductions. (Many state personal and corporate taxes are tied to the federal tax structure, so federal reductions will lead to state reductions. Some estimate that the 1981 tax law will result in a net revenue loss to states in excess of $40 billion.)
- decreased gasoline tax revenues caused by reduced gas consumption, which, coupled with increased highway maintenance costs, is shrinking state highway funds.

While state revenues are decreasing, the nation's physical infrastructure -- roads, bridges, water systems -- is rapidly deteriorating. The cost of rehabilitating or replacing these facilities during the next decade will run into hundreds of billions of dollars and will compound states' fiscal difficulties. Moreover, despite interest rates double what they were in 1977, the federal government and corporations are crowding states out of financial markets, limiting their ability to borrow.

Finally, the nation's recession will foster increased unemployment and industry cutbacks, further reducing state revenues and increasing costs like welfare and unemployment insurance.

As a consequence of all these factors, states will be extremely hard pressed to meet earlier responsibilities, let alone assume new fiscal burdens.

6. **Extensive litigation**

Constituencies frustrated by service cuts, inadequate state staff to manage the new block grant programs and delays or chaos associated with implementing the programs may turn to the courts for relief. While it is obviously difficult to forecast accurately what the courts might do and in which areas, it is reasonable to predict that advocates will seek court-imposed remedies in such areas as:

- preventing precipitous service cut-offs (if advocates succeed in their litigation, states will be forced to appropriate the dollars to make the transition from federal categorical to block grant programs);
- ensuring adequate public participation and administrative due process in the planning and allocation processes; if successful, these efforts could establish case law as detailed as federal regulations; and
- prohibiting discrimination against minorities, women, the handicapped and the elderly; these protections, guaranteed under federal law, will also constrain and possibly lengthen the allocations process.

These suits will also generate process-related administrative costs, in addition to the potential programmatic costs already described.

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III. IMPACT OF THE BLOCK GRANTS

IMPACT ON CITIES

Among the early concerns of city officials regarding the Reagan Administration's block grant proposals was their failure to give city officials a role in block grant planning or resource allocation. City officials also feared that they would not have access to information on block grant programs.

More specific worries were that if the law did not mandate that funds be passed through or allocated directly to cities, their needs would be neglected; and if funds were not targeted on the basis of need, governors would allocate block grant monies uniformly throughout the states, without regard to where they were most needed or where they would be used most effectively.

According to the U.S. Conference of Mayors (USCM), these fears were realized during the early stages of block grant implementation. City officials have, in fact, had difficulty obtaining even the most basic information on the new block grants, from either the state or federal government. Only a handful of city officials were included in the eight regional briefings held by the federal departments administering block grants, and there has been little communication from the federal level to local governments.

At a recent meeting of the U.S. Conference of City Human Service Officials, only representatives from Virginia and South Carolina -- out of approximately 50 people in attendance -- had been able to obtain from the state requested block grant information. Similarly, city officials have had difficulty participating in block grant decisionmaking and in registering their concerns about the service needs of their constituents.

Adding to these problems in FY 1982 are the uncertainty over funding levels and the fact that most states -- with the blessing of federal officials -- did not hold public hearings on block grant plans.

According to USCM, a few states have made efforts to involve local governments in block grant planning and implementation. Early in FY 1982, Virginia set up a series of task forces to plan block grant programs, and several local officials were included. Florida surveyed local governments to obtain their views on issues surrounding block grant planning and implementation. Other states have appointed advisory committees which include local officials.

But a recent USCM survey of 100 cities, conducted in early November 1981, gives further evidence that the early fears of city officials were realistic. Of those responding to questions on block grants, 55% said their states had neither consulted them nor offered an opportunity to participate in block grant decisionmaking; 38% said they were unable to get information from their states on block grant implementation; and 58%

said they expected to lose funds as a result of block grants. Only one city expected to receive more funds under block grant programs.

With regard to the Small Cities Program under the Community Development Block Grant, 42% of the respondents said the state was opting to administer the program; 27% had complaints about the process whereby the state was assuming control or thought the state was doing a poor job. Fifty-three percent were not informed as to how the state was carrying out the transition.

Many cities, in states as diverse as California, Tennessee, Nebraska and Maine, reported that they were consulted only after decisions had been made and the Small Cities program was already designed. In many cases, communication was initiated by the city, not the state; in others, states did not respond when city officials sought information.

Respondents attributed these difficulties to confusion at the state level over block grant programs and state responsibilities; historic bad vx&dbljqoclps between the state and the city; and the strong pro-rural/dqbl3erban bias of many state legislatures.

Many cities surveyed strongly doubted that states would give the same attention to their needs that Washington had. This doubt was based largely on the belief that states will attempt to provide services in every part of the state in order to please a range of constituencies, particularly the strong rural/suburban contingents which dominate many state legislatures. This will inevitably mean drastic reductions in the share of funds going to urban areas, especially in light of the deep funding cuts that accompanied the block grants.

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III. IMPACT OF THE BLOCK GRANTS

IMPACT ON RURAL AREAS

Before discussing the impact of block grants on rural communities, it is important to clarify what is meant by "rural." Rural refers here to communities of up to 50,000 residents, or all non-metropolitan areas. "Rural" and "non-metropolitan" will be used interchangeably.

It is also important to stress that within this broad definition, there is great diversity. Non-metropolitan areas differ by geography, size, population, density, ethnic make-up, economic base, level of development and degree of poverty. For example, rural areas include a ski resort in Vermont, a coal town in Kentucky, a community of large farms in Kansas, a black sharecropping community in Alabama, a boom town in Wyoming and an unincorporated community of Hispanics in Texas.

Rural areas abound with contradictions. While agriculture is a major economic factor in rural America, less than 10% of the jobs in rural areas are in farming. The number of private sector jobs is growing at a faster rate in rural than in non-rural areas. While there has been a turnaround in migration back to non-metropolitan areas, the rural "renaissance" is extremely uneven. Some areas are growing very rapidly, while more than 400 counties -- for the most part predomintely minority and/or agricultural -- continue to decline.

The most vulnerable rural Americans are the poor and minority populations. The problem of rural poverty is little understood and too often ignored. The rural population is disproportionately poor, including 40 percent of the nation's poor, but only 32 percent of the population. The average annual income for a rural poor family in 1978 was $3,394, including earnings and public assistance payments. While the majority of the nation's rural poor are white (7 out of 9 million), rural black families are three times as likely to be poor as rural white families. The rural poor are less educated than their urban counterparts. And finally, the majority of the rural poor live in the South, where public assistance programs are particularly inadequate.

What will block grants mean for rural residents, and particularly the rural poor? Severe problems. There are several reasons why.

First, faced with the budget cuts which accompany block grants as well as with their own budget crises -- and lacking the luxury to deficit spend -- most states will have no choice but to pass on those cuts in the form of decreased services. Unfortunately, the rural poor will have little chance to fare well in the resulting battles between legitimate but competing interests which will be waged at the state level for a piece of the decreasing pie.

The most organized, sophisticated and visible groups and programs with the strongest political power bases are the most likely to get the lion's share of the dollars. The rural poor, however, are not generally well organized, visible to the general public (and the media) or politically sophisticated and powerful. The rural poor are usually small in absolute numbers and geographically dispersed, and thus easily ignored. In short, the rural poor have little or no political clout.

The second reason why the rural poor are likely to lose out under block grants is that they are not well represented in state and local governments, particularly in state legislatures where many of the allocation decisions will be made. While many legislatures may be dominated by members from rural communities, few state legislatures adequately represent the rural poor or working person. The rural banker may not share the same interests as the rural tenant farmer. Similarly, the coal operator and coal miner probably do not share the same views. Rural state legislators are, in fact, traditionally very conservative and often opposed to public programs which provide services to the poor. Furthermore, state legislators are often extremely vulnerable to the kinds of political pressure that the rural poor are unable to muster.

A third problem facing rural minorities, in particular, under block grants is that racial discrimination and insensitivity to minority groups continues to be a significant problem in many states, especially in the South where most of the rural poor live. Under the block grants, which give total discretion to the states to decide which services will be provided to whom, minorities are likely to have a difficult -- if not impossible -- task in competing for the limited dollars. And, without federal targeting, they lack any recourse.

Fourth, most poor rural communities lack the human and financial resources needed to compete in the fundraising and grantmaking process -- to identify a problem, develop a solution, write a proposal and implement a program. With decreasing funds and increasing competition for those limited dollars, the ability to raise money from both the public and private sectors will become more and more crucial. The problem for the rural poor will be exacerbated by the dwindling support for the kinds of programs which have been able to provide such assistance in the past, such as community based organizations, legal services attorneys and human service agencies.

Finally, rural people will be at a disadvantage in fighting for limited funds because of the economics of providing services in non-metropolitan areas. Given the decreased dollars, state officials will be increasingly concerned with spending their money "efficiently." Too often that translates to: provide the most services to the greatest number of people at the lowest cost, regardless of need. Programs serving non-metropolitan residents must be flexible and designed to meet unique rural conditions, not scaled-down urban conditions. Developing appropriate and creative solutions may require a disproportionately large investment of staff time and effort. Furthermore, because of population sparcity, economies of scale do not exist in rural communities as they do in urban areas. For both of these reasons, services in rural areas may cost more per capita. In other words, there will be less bang for the political buck.

Clearly, it is too soon to know for sure how each state will administer block grants. History can provide some clues, however.

First, most of the categorical programs slated for extinction were developed because the states would not -- or could not -- fund or directly provide the services. There is no reason to believe that in hard economic times and with federal resources declining, states will choose to devote more resources to programs they did not support in the past.

Second, the record of public assistance programs, which give states considerable flexibility to establish eligibility and benefit levels, is enlightening about how the rural poor may fare under block grants. The southern states where most of the rural poor live have the most limited welfare benefits of any region of the country. For example, in 1980, the national average payment per AFDC (Aid to Families with Dependent Children) recipient was $93.39 per month. In the South, payments ranged from a high of $64.25 in North Carolina to a low of $29.34 in Mississippi.

For all of these reasons, block grants are likely to spell disaster for many of the nation's 69 million rural residents, and particularly for the nine million poor people living in non-metropolitan communities.

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III. IMPACT OF THE BLOCK GRANTS

IMPACT ON OTHER VULNERABLE CONSTITUENCIES

The Reagan Administration's block grant program will have serious consequences for many segments of American society.

1. **For children, poor people, the handicapped, the elderly and other groups that need the services nwo provided through categorical programs, block grants will have the following adverse consequences:**

- The deep cutbacks in federal support associated with the block grants will deny many needy people essential services. Of the more than $35 billion total cut, nearly $10 billion fell on families with incomes below $10,000 a year.

- Groups will be forced to fight one another for the limited remaining resources at the state level. This conflict will be bitter, will result in extraordinary political tensions within the community and will foster fragmented, rather than coordinated, human service approaches.

- They will face administrative chaos. The Reagan Administration's determination to implement the block grants as soon as possible guaranteed that states and communities would be unable to plan for an orderly transition to the new programs. Confusion and turmoil resulted, and in many communities service programs have nearly ground to a halt.

- Citizens now guranteed protection against discrimininination will be unprotected. The block grant legislation severely weakened federal prohibitions on discrimination and federal requirements to target funds to economically depressed areas and disadvantaged people. People in central cities and remote rural areas can be expected to suffer at the expense of more politically potent state-level constituencies in suburbs and medium-sized cities and towns.

2. **For members of Congress and taxpayers, the block grants will:**

- Reduce accountability for federal funds. States will be free to spend funds without prior federal oversight or citizen participation in determining priorities and needs. They will not be subject to thorough, regular federal audits, site visits and evaluations. Experience with earlier block grants suggests that it will be difficult to determine after the fact how the money was spent.

- Minimize their ability to address truly national needs. Inherent in the block grant legislation is the assumption that there are no national needs in the areas of health, education, social services, community development, emergency assistance, etc. While states and localities will have increased program flexibility, they will also have the flexibility to decide not to fund services that Congress has determined demand nationwide attention. These services include child day care, health services for crippled children, community mental health services and respiratory treatment for coal miners. National needs such as these will be addressed only if states and localities decide to address them and have sufficient resources to do so.

- Substitute federal funds for state and local money. Since states will no longer be required to provide matching funds in order to receive federal block grant monies, they may not continue providing their own funds for the programs being consolidated. Rather, they might use their funds for other purposes and substitute the federal block grant money for their past expenditures.

- Make it difficult to target federal funds efficiently. States will be able to set whatever eligibility requirements they wish for services provided by block grant funds. States may choose to serve middle class individuals who do not really need services or who could pay for them, rather than truly needy families and individuals. States must also decide to allocate funds to prosperous communities rather than to economically depressed central cities or remote rural areas. If these sorts of allocation choices are made, federal funds will be wasted on unnecessary services and activities.

- Lead to increased administrative costs in many areas. The Reagan Administration says block grants will cut waste and duplication and eliminate unnecessary federal staff. Yet the General Accounting Office, Congress' official watchdog, claims administrative costs could actually increase, as 50 state bureaucracies are established to administer each block grant and to assume the functions now carried out by only one federal agency.

3. **For private, non-profit local service delivery agencies, block grants will pose several major issues:**

- Funding, already strained by inflation, will become tighter, as federal cuts associated with block grants are replicated at the local level. Many private agencies that are heavily dependent on federal funds -- community action agencies, community health centers, day care programs, rehabilitation facilities, etc. -- may be forced to close, as private non-profit agencies lose $27 billion from 1981-84 due to federal budget cuts. In addition, personal income tax cuts are expected to shrink personal charitable contributions by over $18 billion during this period. In all, the recent budget and tax cuts will cost private non-profit agencies nearly $46 billion from 1981 to 1984.

- Pressure will develop about who should be served. As resources vanish and federal eligibility requirements are abolished, local service delivery agencies will be forced to make more decisions, based on their own criteria, about who gets served. Within the tight budget environment that will exist, these decisions will be subject to intense scrutiny and criticism.

- States may shift funding to public agencies, and state agencies may create or strengthen regional or district service offices. In the face of reduced resources, such shifts will allow states to increase their control over service providers and their staffs and to define more specifically what services should be provided. For the same reasons, states might also move towards using private, for-profit vendors. As a result, many private non-profit agencies will be forced to close or to change their traditional focus dramatically.

- Fundraising activities will assume greater prominence. Private agencies will have to increase their efforts to obtain private sector contributions -- efforts that have already been expanded to address inflationary demands. Those activities will reduce both the resources and staff time available for agencies' service duties.

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IV. KEY ISSUES

Aside from specific issues pertaining to individual programs proposed for block grants, the Reagan Administration's block grant proposals raise a number of common concerns. These include the lack of targeting and accountability mechanisms, as well as the fiscal difficulties that states will experience in trying to administer block grants without sufficient resources. The following pages discuss these issues.

IV. KEY ISSUES

NEGLECTING THE TRULY NEEDY

One of the ironies of the debate surrounding the original Reagan block grant proposals was the contradiction between the budget discussion, with its talk of the "social safety net" and helping the "truly needy," and the removal of all targeting and need-related requirements in human service programs proposed for block grants. The Administration wanted to replace a variety of programs focused on disadvantaged or needy constituencies with general grants of money that included no requirements that services be provided on the basis of economic need, handicap, etc.

For example, the proposed social services block grant completely removed the income eligibility criteria associated with the original Title XX program (the Title XX block grant passed by Congress also eliminates these criteria). The Administration wanted to remove targeting requirements from the proposed energy/emergency assistance block grant, but Congress reinstated targeting in the final low income energy assistance program. The Administration's proposed education and health block grants -- which included programs specifically enacted to assist disadvantaged and handicapped children -- had no targeting requirements, no eligibility criteria based on need and no priorities for whom would be served. While Congress refused to abolish many of the most crucial targeted categorical programs that the Administration wanted to consolidate into block grants, the block grants that did emerge substantially weaken targeting requirements.

One does not need to be cynical to predict that the process by which states allocate block grant funds will respond to the priorities of constituencies that are predominantly middle class or affluent, organized and vocal -- and whose members vote. The less powerful and less numerous individuals who have pressing but not politically popular needs are likely to lose out in statewide competition for reduced resources. Thus, the block grants -- particularly in their original form, which the Administration has threatened to revive, but also in the modified versions enacted by Congress -- have turned the allocation of federal tax dollars into a brutal political struggle at the state level, where the most vulnerable and least powerful are almost certain to be the losers.

Besides pitting the poor against middle class and affluent constituencies, the block grants also set one disadvantaged group against another in competition over a small pie. Rural areas will fight inner cities, elderly will fight mothers and children and emergency medical services will compete with preventive health services. In this way, the block grants have greatly increased the politicization and brutalization of the allocation of scarce dollars.

Recent accomplishments in preventing discrimination, and the resulting gains in securing equal opportunity, were also seriously imperiled by the Reagan block grants. The proposals were dangerous because they committed to the ultimate discretion of states and localities the provision of programs and services that Congress had devised to meet specific needs of victims of discrimination, deprivation or neglect.

Much of the rhetoric about safeguards and accountability offered by the Administration during the block grant debate was an echo of statements made by a previous administration when the State and Local Fiscal Assistance Act of 1972, which established General Revenue Sharing, was first proposed. The Reagan Administration seemed to have forgotten -- or hoped others had forgotten -- that actual experience with revenue sharing and block grants discredited many of the original assertions.

Even when civil rights issues are viewed in the narrower context of a need to prevent discrimination in the use of funds, however they are allocated, both the Administration's proposals and the final block grants are woefully deficient. They simply apply boilerplate civil rights language, without any consideration of the particular enforcement mechanisms needed when funds are distributed through block grants.

IV. KEY ISSUES

ACCOUNTABILITY

> "Any block grant proposal is inevitably caught in a dilemma: the goal of providing maximum flexibility and minimal restrictions to the recipient (state or locality) in the uses of the federal funds conflicts with the goal of ensuring that federal funds are effectively used for the attainment of national objectives and for the provision of additional...services to federally-defined populations.
>
> "The question, then, is what to require of the (state or local agencies) that receive these block grants. To specify the precise purposes and activities for which they will use the funds? To propose criteria by which to measure progress? To evaluate themselves or submit to external evaluation of their performance? To subject their plans and performance to scrutiny by a higher level of government (or by some kind of community review group)? To allow aggrieved persons who feel that the federal purposes are not being fulfilled, or that their needs are not being met, to appeal to Washington? Ultimately, to be denied future block grant funds (or to have the amounts reduced) because of unwillingness or inability to use the funds in ways envisioned in the federal authorizing statute?"

— The Stockman "Black Book"

At a time when the American people are demanding more accountable, more effective government, the Reagan Administration's "no strings" approach to block grants greatly reduces the accountability and effective- ness of many government programs. Despite the clear, balanced presentation of accountability issues in Office of Management and Budget Director David Stockman's "Black Book," the Administration's proposals ignored accountability issues and would have given virtually unfettered discretion to state governments.

The Reagan Administration's approach to block grants provides no assurance that states will administer the programs in an open, accountable manner. The CDBG and social services block grants, for example, simply require that states submit brief reports stating generally how they intend to spend their funds. Citizens have a chance to review and comment on these reports; and the state must hold a public hearing on the planned use of block grant funds -- though not until fiscal year 1983, according to HHS. The federal government receives the reports and is to compare them with subsequent reports describing what was done. Each state will also audit its expenditures under the block grants.

This approach to block grants raises a number of accountability issues:

- It does not require the involvement of state legislatures in assessing needs, setting priorities or evaluating performance.
- It does not provide assurance that citizens will have access to the information they need to monitor and assess the state's plans or performance.
- It does not provide for any evaluation of performance by local citizens or the federal government, or, in some cases, even the state government itself.

Furthermore, because the reports that states submit at the beginning and end of each year are brief and nonspecific, it will be virtually impossible for citizens, local governments or state legislative committees to track block grant funds. The new block grants are subject to the most serious problems that have plagued past block grant and revenue sharing programs -1 the virtual impossibility of tracing how the funds have been spent, whether they have been spent legally and what their impact has been.

The importance of reporting as the most fundamental step towards accountability has been underscored in several recent reports from the General Accounting Office and by the Inspectors General of various federal departments, among others.

Former HUD Assistant Secretary Robert Embry expressed concern about this issue when he stated: "Most mayors don't have the slightest idea how CDBG funds are spent."

The "decision memo" on the social services block grant which HHS staff prepared for Secretary Richard Schweicker also discussed this issue:

> "One consideration in choosing whether to require anything beyond minimal Federal post-expenditure oversight is that in many states it is impossible to determine from publicly available documents which sources of funds are planned for what services, and hence for normal political involvement to influence state priorities.

> "Furthermore, without such detail available to HHS, there would be no basis for describing or assessing current and near-term state priorities in testifying to the Congress, considering legislative changes and the like.
>
> "The specific argument for requiring a state plan that is to be approved by the Secretary of HHS is that it provides a basis for assuring that states plan to achieve key requirements, and/or to correct previously identified deficiencies, such as failure to prevent waste or to target sufficient funds to preventive services."

Despite the clear analysis in this memo, HHS -- after extensive consultation with OMB -- chose not to propose measures which would adequately ensure that state governments would be accountable to their citizens, their legislatures or the federal government for their expenditure of block grant funds. Under OMB pressure, HUD and the Department of Education made similar decisions. In designing block grant programs, they all failed to provide procedures and safeguards which follow any of the six routes to accountability suggested by Mr. Stockman in the "Black Book":

- To specify the precise purposes and activities for block grant funds;
- To propose criteria for measuring progress;
- To evaluate performance;
- To subject plans and performance to scrutiny by a higher level of government or community review groups;
- To allow aggrieved persons to appeal to Washington;
- To deny or reduce funds because of unwillingness or inability to comply with the statute.

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IV. KEY ISSUES

FISCAL SITUATION OF STATES

The following analysis, which appeared in the May 10, 1981, Washington **Post**, reviews the fiscal plight of states and raises major questions about states' ability to cope with the major loss of federal funds that accompanied the new block grants.

The Washington Post

Sunday, May 10, 1981

State Governments Face Crunch

Slack Economy, Tax Revolt Cited

By Dan Balz
Washington Post Staff Writer

Michigan is perhaps in worst shape overall. It will spend about 6 percent less this year than last, and has cut state employment by about 4,300 jobs.

Minnesota faces a $500 million revenue shortage in the upcoming biennium.

Iowa cut its fiscal 1981 budget by 4.6 percent, and may be forced to raise taxes to stay even in 1982.

Ohio temporarily raised sales and income taxes this year to weather its crisis.

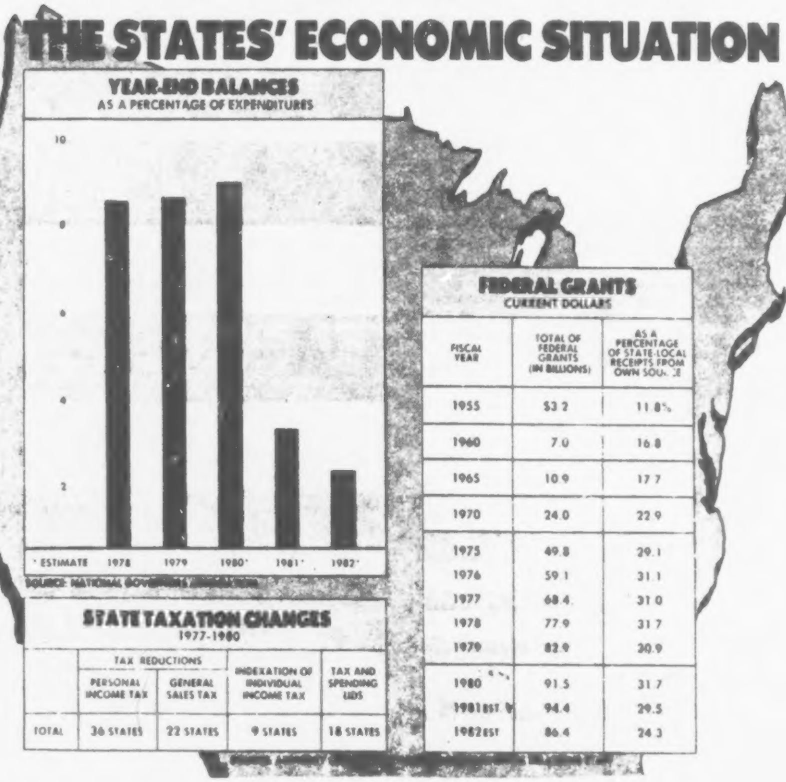
Wisconsin has made sizable spending cuts.

Missouri cut its budget 10 percent in January, and expects no increase next year.

From Oregon to Connecticut and from Michigan to Alabama, the state governments are undergoing a fiscal retreat brought on by the national tax revolt and the sluggish U.S. economy.

State legislatures have been forced to slash spending, in some cases across the board, and, for the first time since

THE STATES' ECONOMIC SITUATION



SOURCE: NATIONAL GOVERNORS ASSOCIATION

STATE TAXATION CHANGES
1977-1980

	TAX REDUCTIONS		INDEXATION OF INDIVIDUAL INCOME TAX	TAX AND SPENDING LIDS
	PERSONAL INCOME TAX	GENERAL SALES TAX		
TOTAL	36 STATES	22 STATES	9 STATES	18 STATES

FEDERAL GRANTS
CURRENT DOLLARS

FISCAL YEAR	TOTAL OF FEDERAL GRANTS (IN BILLIONS)	AS A PERCENTAGE OF STATE-LOCAL RECEIPTS FROM OWN SOURCE
1955	$3.2	11.8%
1960	7.0	16.8
1965	10.9	17.7
1970	24.0	22.9
1975	49.8	29.1
1976	59.1	31.1
1977	68.4	31.0
1978	77.9	31.7
1979	82.9	30.9
1980	91.5	31.7
1981EST.	94.4	29.5
1982EST	86.4	24.3

[illegible] ADVISORY [illegible]

Proposition 13 fever swept the country three years ago, higher state taxes are becoming commonplace.

The headlines have gone in recent weeks to President Reagan's budget cuts at the federal level, but these pale by comparison with the cuts already going on across the country in states and localities.

And the federal cuts, which will hit the states in fiscal 1982, will make matters even worse, causing further spending cuts and more tax increases.

Any expectation that the states will take over responsibilities now being jettisoned in Washington is belied by the weak fiscal condition of many state governments. The only hope is that Reagan's economic program will produce the kind of results he so confidently predicts.

The fiscal wreckage can be found all across the country, although many midwestern states appear hardest hit because of the depression in the automobile industry.

Connecticut faces a $110 million revenue shortage in fiscal 1982. Some state agencies in Alabama have been told they will receive less money this year than called for in the budget approved by the legislature.

Kentucky has gone through repeated rounds of cuts. Illinois Gov. James R. Thompson recently proposed $220 million in cuts from the 1982 budget he proposed in March.

Closer to home, only Virginia seems healthy, while Maryland and the District of Columbia continue to suffer from a shortage of revenue that may cause program cuts or layoffs.

And in Massachusetts, where voters approved a drastic property tax limitation measure last November, politicians are bracing for a struggle over how to slice up a smaller pie.

The issue there is how much the state should attempt to help out towns and cities whose revenues will be cut drastically by Proposition 2½. Other states which have done that, or have provided their own property tax relief, now find themselves in financial trouble.

"It's partly self-inflicted," Robert Smith, Oregon's chief budget officer, said of the problems in his state, where efforts to subsidize property tax payments have diverted money from other programs.

Many states might have been able to get through the tax revolt with only a little belt-tightening had it not been for the recession. "The states have been hit by a double whammy," said Jim Mallory, deputy director of the National Association of State Budget Officers.

In many states, the only choices are deep reductions, higher taxes or both.

In Oregon, a state hurt not only by the tax revolt but also by a slump in the timber industry, Republican Gov. Victor Atiyeh has proposed a package of cuts totaling $260 million, along with new taxes of $240 million.

In Minnesota, where Gov. Al Quie came into office with a pledge to cut taxes, voters face a reduction in services and about $400 million in new taxes. Legislators worked on a solution all last week, and Quie is fighting to prevent erosion of his tax centerpiece, indexation.

Indexation is an attempt to insulate taxpayers from the effects of inflation, but a number of states that have tried it now find themselves in financial trouble.

State politicians elsewhere are doing all they can to head off even more drastic cuts, and are dipping into reserve funds at an unprecedented rate.

State governments expect to spend about $6 billion more than they get in revenues in the current fiscal year, according to a forthcoming study by the National Governors Association (NGA). This will cut sharply into the balances states maintain because of restrictions on deficits. Only one state, Vermont, allows deficits.

Most states try to achieve a year-end balance of 5 to 6 percent of expenditures. For fiscal 1981, the average will be well below 4 percent, down from about 9 percent in fiscal 1980, according to NGA estimates.

Those averages also mask a disparity between the few healthy states and the many that are suffering. Energy-rich states like Alaska, Texas, Louisiana and Montana, whose revenues have been swollen by higher oil prices and various severance taxes, are financially healthy. But for most other states, financial conditions have tightened since last year, and are expected to become worse in fiscal 1982.

"A good number of states are at zero or 1 percent [in their balances]," said Joe McLaughlin of the NGA. "They're cutting it very thin."

At least 33 states project year-end balances of below 5 percent, compared with 20 a year ago, according to preliminary findings by the NGA. Projections for fiscal 1982 show that year-end balances may fall to the range of 2 percent.

Nothing appears sacred when the state budget ax begins to fall. In Minnesota, the budget crisis and a decision not to sell construction bonds until interest rates drop may eliminate funding for a new building to house the Hubert H. Humphrey Institute of Public Affairs.

In Michigan, Thomas A. Clay, director of the state budget office, said, "There hasn't been an important area of our budget that hasn't been cut . . . . We're retrenching rather dramatically."

Among the programs hardest hit is Medicaid. State costs have risen 84 percent since 1977 to an estimated $14.2 billion in fiscal 1982. Reagan wants to cap further federal increases at 5 percent, and at their winter meeting in February, the governors protested that they could not take up the slack.

Many states have cut benefits and tightened eligibility standards. Kentucky, for example, is considering changes that would eliminate 57,000 people from the program. Benefits in Washington state will be cut from $458 to $416 for a family of three.

Minnesota and Georgia, among others, are considering charging Medicaid patients nominal sums to slow the growth of the program. Other states may limit the amount they pay doctors for treating Medicaid patients.

Budgets for elementary and secondary schools have been squeezed, a particular problem because state government is now the primary funding source for the schools.

Kentucky's reductions have affected school supplies, new textbooks, teacher-pupil ratios in kindergarten classes and various support services. Washington's legislature put a lid on teacher salaries, Iowa teachers face layoffs and Missouri teachers protest that the new budget will force them to lose further to inflation.

To prevent deeper cuts in higher education, college tuitions are rising. Students in Washington state face increases of 70 percent, while a 25 percent hike in Nevada is likely.

Other programs, from parks to police, have been slashed by legislatures with their backs to the wall. Idaho, whose budget is slightly larger this year than last, has closed parks to hold down costs.

The financial squeeze has made higher taxes a necessity in some states. "You can cut the budget just so far," said J. William Burns, deputy secretary of the Office of Policy Management in Connecticut, where a host of tax increases is likely. "We're in the business of delivering services. You can't eliminate snowplowing. You've got to keep the schools open."

The Tax Foundation estimates that legislation proposed this year by the nation's governors would raise state taxes by $3 billion, continuing a trend begun last year, when tax increases outpaced tax cuts for the first time since 1978, the year California voters approved Proposition 13.

Between 1977 and 1980, 18 states enacted tax or spending limits, 36 states cut their income taxes, 22 states slashed sales taxes and 9 states indexed their tax systems. But those tax cuts have since come home to roost.

The National Conference of State Legislatures, using Census Bureau figures, reports that tax revenues increased faster than inflation in nine states in fiscal 1980, all but one in the West and South. State tax receipts rose 9.6 percent. In Vermont and Michigan, tax revenues declined.

THE WASHINGTON POST

As a result, state governments have been forced to raise taxes. In 1980, 18 states enacted 29 tax increases, including seven states that boosted either sales or income taxes, according to the NGA.

Even more states are considering tax increases this year, and the mood of the legislatures is best symbolized by a non-binding straw vote last month in the House of Representatives in notoriously anti-tax New Hampshire. By 2 to 1, members of the House there said they would favor enacting the state's first income tax.

Most states are trying to avoid higher sales or income taxes because of the political consequences. "The one that separates the men from the boys is to go after income or sales taxes," said John Shannon of the Advisory Commission on Intergovernmental Relations.

But many states are raising less visible taxes, such as those on cigarettes or alcohol, or increasing user fees, to bring in more revenue. And higher gasoline taxes are being considered in nearly two dozen states to shore up highway maintenance funds.

Still, the tax revolt has not completely died down. Michigan's Republican Gov. William G. Milliken is supporting a ballot proposition to cut taxes on homes by 50 percent, while raising the sales tax from 4 to 5.5 percent and cutting state spending an additional $250 million. He is trying to head off a more drastic tax cut plan favored by conservatives.

In Nevada, Gov. Robert F. List signed legislation that cut property taxes by 50 percent but boosted the sales tax from 3.5 to 5.75 percent.

Public attitudes may change, however, because those state surpluses are disappearing, and local voters will have to decide if they are willing to live with fewer police, parks and teachers, or raise local taxes.

This tax revolt has already had a profound effect on the role of state and local governments, whose share of the gross national product has declined from a peak of 15.1 percent in 1975 to 13.5 percent in 1980.

And when Reagan finishes his work on the federal budget, the effect on the states will be nearly as dramatic. In fiscal 1980, federal aid for the states accounted for 31.7 percent of state-local receipts. By fiscal 1982, that will decline to 24.3 percent, according to the Advisory Commission on Intergovernmental Relations.

Steven Gold of the National Conference of State Legislatures said, "That is the next body blow that's going to hit the states."

Staff writers Art Harris, Jay Mathews and Loretta Tofani, staff researcher Maralee Schwartz and special correspondents Jim Barrows, Terry Ganey, Carolyn Gatz, Laura Parker, Carin Pratt, Austin Wehrwein and David Yepson contributed to this report.

V. FY 1982 BLOCK GRANT SPECIFICS

Following are descriptions of the nine new block grant programs: Community Development, Health Prevention and Services, Alcohol Abuse, Drug Abuse and Mental Health Services, Primary Care, Maternal and Child Health, Education Consolidation, Social Services, Low Income Energy Assistance and Community Services.

Also included are a description of the general block grant requirements found in Title XVII of the 1981 Omnibus Budget Reconciliation Act; an analysis of the Department of Health and Human Services regulations for the health, energy assistance and community services block grants; and an analysis of the Department of Housing and Urban Development regulations for the Small Cities Program under the Community Development Block Grant.

V. FY 1982 BLOCK GRANT SPECIFICS

COMMUNITY DEVELOPMENT

The Department of Housing and Urban Development's community development program has always been a block grant, but the new legislation moves that program in the direction desired by the Administration by removing many protections such as stringent application and citizen participation requirements. Within the CDBG program, separate funds are now earmarked for Urban Development Action Grants (UDAG). CDBG funds are split 70%/30% between urban entitlement jurisdictions and small cities, rather than the former 80%/20% split.

Under the revised CDBG program, neither entitlement nor nonentitlement (small cities) jurisdictions are required to submit applications for approval. They only need to submit a statement of their proposed community development activities and projected use of funds. The statement must be available for public examination and comment and must include information on the amount of money available for proposed community development and housing activities and the range of activities to be undertaken.

The grantee must hold at least one public hearing and, in preparing its final submission, is to consider public comments received. If appropriate, the grantee is to modify its proposed statement, and the final statement must be made available to the public.

The grantee's projected use of funds is to be "developed so as to give maximum feasible priority to activities which will benefit low and moderate income families or aid in the prevention or elimination of slums or blight," according to the congressional report on the legislation. The funds may also be used for activities which meet urgent community development needs because "existing conditions pose a serious and immediate threat" to the community's health or welfare.

Entitlement jurisdictions are still required to submit a housing assistance plan (HAP) to HUD, but small cities need not prepare a HAP. The HAP came under considerable attack during committee hearings on CDBG, and it is likely that the Administration and some members of Congress will try to eliminate it entirely in 1982.

HUD will conduct annual reviews and audits of the performance of entitlement jurisdictions and has authority to reduce annual grants if its review suggests that this is appropriate.

No more than 10% of a jurisdiction's CD grant may be used for public services, but there are no restrictions on where such services can be provided. Energy conservation measures will not count against the 10% ceiling. For the first time, the legislation permits for-profit economic development as an "eligible activity" under CDBG.

The reconciliation act folds into the CDBG program, without providing additional funds, activities previously authorized by the Section 701 comprehensive planning aid program and the Neighborhood Self-Help Development program. The Section 312 rehabilitation loan program is authorized, but no new funds are provided. Future loans will be made with funds available from repayment of past loans.

While the UDAG program is separately authorized, with its own funding for fiscal years 1982 and 1983, it is more limited than before. Economic development activities are strongly emphasized, there is no longer a requirement for a balance between neighborhood and other types of projects and citizen participation is reduced. A public hearing and an after-thefact analysis of the program's impact on neighborhoods are required, however.

Congress adopted provisions governing the small cities program largely from the more advantageous Senate bill. States now have the option of running the small cities program themselves but they must pass through all funds, plus 10% additional state monies, to localities. Alternatively they can allow HUD to administer the program. States may use up to 2% of their federal funds to administer the program, provided the amount used is matched with state funds. Where states do not opt to administer the small cities program, HUD will accept proposals directly from non-entitlement jurisdictions.

HEALTH

Congress cut funding by 25% for about 20 health programs included in four block grants: health prevention and services, alcohol and drug abuse and mental health services; primary care (community health centers); and maternal and child health.

Excluded from the blocks are programs for immunization, tuberculosis, black lung, venereal disease, developmental disabilities and family planning, as well as migrant health centers and, for fiscal 1982 only, primary care research and development. In addition, Congress established a new adolescent pregnancy program which partially duplicates an existing program that was included in the maternal and child health block grant.

In general, thanks to House committee insistence, the health block grants provide opportunities for public hearings on the state-run programs and require states to establish criteria for evaluating grantees' performance. In some cases, states are required to justify their decisions on use of the block grant funds. Required reports and audits are to be available for public inspection.

HEALTH PREVENTION AND SERVICES BLOCK GRANT

This includes home health services, rodent control, fluoridation, health education/risk reduction, health incentive grants, a continuation of existing emergency medical services grants, rape crisis services (with a $3 million set-aside each year and funds distributed according to a population-based formula) and hypertension programs (with set-asides of 75% in FY 1982, 70% in FY 1983 and 60% in FY 1984). The state may shift up to 7% of these funds to other health block grants. Administrative costs are limited to 10%.

Beginning in FY 1983, the state legislature must hold "public hearings on the proposed use and distribution of funds" for this block grant. The state is also required to submit an application which includes certification that the state will make grants for fiscal 1982 to each entity within the state which received a grant or contract in fiscal 1981. The application also includes the state's agreement "to establish reasonable criteria to evaluate the effective performance of entities which receive funds...and procedures for...independent state review of the failure by the state to provide funds for such entity." Other requirements include:

- identification of those "populations, areas and localities in the state with a need for the services" provided by this block grant;
- agreement that the block grant funds will supplement, and not supplant, state and local funds for these programs;
- making available for public comment a report that describes the intended use of the block grant funds; submission of an annual report on the activities funded by this block grant; and an annual audit of expenditures.

ALCOHOL ABUSE, DRUG ABUSE AND MENTAL HEALTH SERVICES BLOCK GRANT

This block grant includes community mental health centers and drug and alcohol abuse programs. The Secretary has a 1% set-aside for grants to public and non-profit private organizations to provide training and retraining to employees "adversely affected by changes in the delivery of mental health services and for providing such employees assistance in securing employment."

Previously funded mental health centers must receive continued support in fiscal years 1982 through 1984, but the Secretary has authority to approve defunding of existing grantees.

The legislation earmarks specific percentages of the funds for the three programs included in the block and allows shifting of up to 7% of the funds to other health blocks. No more than 10% of the federal funds may be used for administration.

The same requirements for public hearings and criteria for evaluating grantees' performance apply here as in the health services block. In addition, community mental health centers are required to provide specific types of services to specified types of people. Federal funds must not supplant state and local funds for these services. The state must make available for public comment its description of the intended use of the funds and, annually, submit a report and conduct an audit.

PRIMARY CARE BLOCK GRANT

This "block grant" actually continues community health centers as a separate program, with separate funding, and gives states the option of whether eventually to administer the centers or allow the federal government to continue doing so. The centers are operated on a completely categorical basis, as in the past, in fiscal 1982, while states use planning grants to prepare for their eventual takeover of the centers. In fiscal 1983 and 1984 states may administer the centers but must fund existing grantees for one year. If a state does not wish to assume this responsibility, federal administration will continue.

Beginning in FY 1983, the state legislature must hold public hearings on the proposed use and distribution of the block grant funds. The state must "establish, after providing reasonable notice and opportunity for the submission of comments, reasonable criteria to evaluate the fiscal, managerial and clinical performance of community health centers."

MATERNAL AND CHILD HEALTH BLOCK GRANT

This block grant consolidates Title V of the Social Security Act relating to maternal and child health and services for crippled children, the Supplemental Security Income (SSI) program for disabled children, the lead-based paint poisoning prevention program, the Sudden Infant Death Syndrome program, funding for comprehensive hemophilia diagnostic and treatment centers, an adolescent pregnancy program and the genetic disease program. No funds may be transferred out of this block.

The legislation deletes a provision of the House version that required states to pass through one-third of their allotments to counties and municipalities. This is "to avoid creating difficulties" in states where local health departments are not active in providing maternal and child health services, according to the House-Senate conference report. But, the report adds, "it is the intention of the conferees that states maximize the amount of funding available for the direct delivery of services, and that local health departments (where they exist) and other local public health entities receive at least the same proportion of funding in future years as they have in the past" for these services.

The legislation also states that removal of the 15% administrative cost ceiling is not intended to encourage states to spend more than that on administration and other "nonservice expenditures." Rather, states are expected to economize even beyond the current 7.5% administrative cost average.

The state must submit an annual report on the maternal and child health block grant to the Secretary, stating the intended use of the funds, including consideration of the needs of the state for services, a statement of goals and objectives for meeting those needs and information on the types of services to be provided and the categories of individuals to be served. An audit is required every two years and a report on activities undertaken is required each year.

EDUCATION CONSOLIDATION PROGRAM

The education consolidation program consists of two parts: one continues Title I of the Elementary and Secondary Education Act (ESEA) which supports programs for disadvantaged students (but in severely restricted form); the other consolidates into a block grant 28 small elementary and secondary education programs.

Bilingual education and the Women's Educational Equity Act **are not** included in the block grant.

While the new legislation states that programs are to be operated in school "attendance areas" with "the highest concentrations of low income children," this is a substantial dilution of previous language which provides for very specific targeting of funds within school districts.

The new block grant also eliminates major provisions that delineate state responsibilities for auditing and enforcement; weakens maintenance of effort, supplement not supplant and comparability requirements; and eliminates a variety of accountability provisions, such as those requiring public access to information and those establishing complaint procedures and monitoring requirements.

Finally, the new Title I block grant eliminates parent advisory councils and other forms of parental involvement, requiring only that programs be "designed and implemented in consultation with parents and teachers" of children served by Title I programs.

The second portion of the education block grant consolidates all other ESEA programs (except bilingual education and the Women's Educational Equity program), as well as Teacher Corps, teacher centers, precollege science teacher training, the Career Education Incentive Act and the Alcohol and Drug Abuse Education Act. It also phases the Follow Through program into the block grant over three years. State education agencies are required to pass through 80% of their funds to local education agencies.

SOCIAL SERVICES BLOCK GRANT

While the President had proposed consolidation of 11 programs into a massive social services block grant, Congress simply amended the existing program under Title XX of the Social Security Act into a block grant that includes social services and staff training. Among the crucial programs left out of the block grant are child welfare, adoption assistance and child abuse and foster care.

The new legislation no longer targets services on the basis of income, and it eliminates requirements for states to match a portion of the federal funds. However, it does not retain the original goals of the Title XX program, which include helping recipients achieve or maintain economic self-sufficiency and preventing or remedying neglect, abuse or exploitation.

The legislation permits training of social services staff through conferences and workshops and through grants to nonprofit organizations or to individuals with social service expertise.

Before spending their social services funds, states must develop and make public a report on how the funds will be used, including information on the types of activities to be funded and the characteristics of those to be served. Reports on how the funds were spent, as well as audits, are required every two years.

States may transfer up to 10% of their social services funds to any of the health block grants or to the low income energy assistance block grant.

LOW INCOME ENERGY ASSISTANCE BLOCK GRANT

This program, which was basically a block grant to begin with, came out of the reconciliation process in extremely good shape. Congress did not go along with the Administration's proposal to include emergency assistance in the block grant with energy assistance, nor to eliminate income criteria for receiving assistance.

Of all the new block grants, this one has the most stringent requirements for outreach and targeting of services to low income people. It also includes a crucial "income disregard" provision which prohibits counting this assistance as income in determining other government benefits, and it limits administrative costs to 10%.

Funds for low income energy assistance are targeted to households with the lowest incomes and the highest energy costs in relation to income, and renters are to receive equitable treatment. While states may set their own eligibility criteria, federal funds may be used only for households that include a public assistance recipient or a recipient of certain veterans' benefits, or whose income is below either 150% of the poverty level or 60% of the median state income.

The state's plan must be made available to the public in such manner as to facilitate public comment; and the state may not receive funds after the first year of the program unless it conducts public hearings on the proposed use and distribution of the energy assistance funds. The legislation states that the governor is expected to fully inform the state legislature about the state plan and assist and encourage the legislature to conduct independent oversight hearings on the operation of the program. There is no provision whereby the Secretary may disapprove a state's plan, however.

States are also required to provide the opportunity for "a fair administrative hearing to individuals whose claims for assistance..are denied or are not acted upon with reasonable promptness." An independent audit of the program is required annually.

To the extent that it is necessary to designate local administrative agencies to carry out this program, states must give special consideration to local public or private nonprofit agencies that are currently receiving federal funds for any low income energy assistance or weatherization program. States may use up to 15% of their block grant funds for weatherization or other energy-related home repair; and they must reserve a reasonable amount, based on past experience, for crisis intervention.

States may transfer up to 10% of their low income energy assistance funds to any of the other block grants except education or community development, allowing them to partially offset the funding reductions in other program areas.

COMMUNITY SERVICES BLOCK GRANT

Congress enacted a separate block grant for community services, thwarting the Administration's plan to fold this program into the Social Services Block Grant. The legislation repeals authority for the Community Services Administration and places the block grant under the jurisdiction of the Department of Health and Human Services (HHS).

In FY 1982, states are to make grants to previously designated community action agencies or to organizations serving seasonal or migrant farmworkers. Beginning in FY 1983, funds may be administered directly by political subdivisions of states, by private nonprofit community organizations or by migrant and seasonal farmworker organizations.

A community action agency or nonprofit organization that receives funds must have a board whose membership is constituted as follows: onethird, chosen democratically, to represent the poor in the area served; one-third elected public officials; and one-third members of business, industry, labor, religious, welfare, education or other major groups and interests in the community.

The state legislature is to hold a public hearing, beginning in FY 1983, on the proposed use and distribution of funds. The state may transfer up to 5% of its funds from this block grant to services under the Older Americans Act, Head Start or energy crisis intervention. State administrative costs are limited to 5%.

As part of its application, the state must certify that it will use the community services funds "to provide a range of services and activities having a measurable and potentially major impact on causes of poverty in the community or those areas where poverty is a particularly acute problem." Activities are to help low income persons, including the elderly poor, to secure employment, education and housing and to obtain emergency assistance, among other purposes.

The HHS Secretary may use up to 9% of the funds appropriated for this block grant for discretionary projects, carried out directly or through grants to states or public and other organizations and agencies. Eligible projects include assistance to "private, locally initiated community development programs which sponsor enterprises providing employment and business development opportunities for low income residents of the area"· Rural Development Loan Fund revolving loans and guarantees; community development credit union programs, technical assistance and training programs in rural housing and community facilities development; assistance for migrant and seasonal farmworkers; and national or regional recreational programs for low income youth.

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BLOCK GRANT SPECIFICS

TITLE XVII REQUIREMENTS

Sections 1741-1745 of the budget reconciliation legislation include minimum public hearing, targeting and auditing requirements for several block grants.

The Education Consolidation Program is specifically exempted from Title XVII requirements, as are the Maternal and Child Health and Primary Care Block Grants. (As noted above, the Primary Care Block Grant includes its own public hearing requirement.)

The Department of Health and Human Services (HHS) has further determined that both the Social Services and Low Income Energy Assistance Block Grants are also exempt from Title XVII, because they were formerly block grant programs in which federal funds flowed to the states. As such, they do not fall under the Title XVII requirements for new block grants.

Public Hearings

Title XVII says: "No state may receive block grant funds for any fiscal year until the state has conducted a public hearing, after adequate public notice, on the use and distribution of the funds proposed by the state." HHS ruled, however, that this requirement was not in effect in FY 1982, because several individual block grants require hearings beginning in FY 1983.

Transition

Title XVII allowed states to wait until the third quarter of FY 1982 (July 1, 1981) to certify that they had complied with block grant planning requirements and were ready to use block grant funds. Until that time, the federal agency with jurisdiction over the block grant would distribute the funds on a categorical program basis, with pro-rata reductions to reflect the spending cuts adopted by Congress in the budget reconciliation act.

These transition provisions did not apply to the Social Services or Low Income Energy Assistance Block Grants. Because they had been block grant programs prior to FY 1982, and the new legislation would require few administrative changes on the part of states, all states were required to implement them on October 1, 1981.

While advocates considered Congress's adoption of these transition provisions as a great victory, it turned out that few states took advantage of them. According to data compiled by the National Governors' Association, the overwhelming majority of states chose to implement most or all of the block grants on October 1, 1981. New York and California were the notable exceptions to this trend, California having adopted a state law that delayed implementation of all block grants until July 1, 1982, the latest date permitted by Title XVII.

Targeting

Each state must develop a public report on its proposed use of funds for individual block grants. The report must include: a statement of goals and objectives; information on the types of activities to be supported, geographic areas to be served and categories or characteristics of individuals to be served; and the criteria and method established for the distribution of the funds, including details on **how the distribution of funds will be targeted on the basis of need** to achieve the purposes of the block grant.

Beginning in FY 1983, the report must include a description of how the state has met the goals, objectives and needs set in the previous year. The report and any changes to it shall be made public "on a timely basis and in such manner as to facilitate comments from interested local governments and persons."

Audits

Title XVII requires states to perform financial and compliance audits of their block grant funds every two years.

In contrast to its decision on public hearings, HHS ruled that this provision supersedes the requirement in an individual block grant -- in this case the more lenient requirement for an annual audit of the Community Services Block Grant.

Access to Records

In order to evaluate and review the use of the block grant funds, the Comptroller General is to "have access to any books, accounts, records, correspondence or other documents" relating to such funds.

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BLOCK GRANT REGULATIONS

In sharp contrast to past federal regulations, those for the new block grants are deliberately minimal, failing to elaborate on or clarify the sometimes vague provisions of the legislation. This is true of the regulations promulgated by the Department of Health and Human Services (HHS) and by the Department of Housing and Urban Development (HUD).

The HHS regulations cover four block grants in the health area as well as block grants for social services, community services and low income energy assistance. HHS published these "interim final" regulations in the October 1 **Federal Register** (pp. 48581-48598), allowing a 60-day comment period.

On November 20, HUD published interim regulations for the State Program (Small Cities Program) under the Community Development Block Grant, with comments permitted until January 19. The proposed regulations are on pages 57255-57261 of the **Federal Register**.

HHS Regulations for Health, Social Services, Community Services and Low Income Energy Assistance Block Grants

HHS itself has described these regulations as "bare bones minimum" and in every possible instance has given maximum discretion for interpreting the law to the individual states. The regulations clearly indicate that HHS will exercise little if any judgment as to the adequacy of state block grant administration, beyond technical concerns such as whether the state has submitted a complete application.

Application and Reporting Requirements

Despite statutory language stating that the HHS Secretary will prescribe the form of state applications for block grant funds, the regulations do not do so. They merely state that the application must comply with Title XVII requirements for a report that includes the goals, activities, geographic areas and types of individuals to be served, and the "criteria and method" for distributing funds, including how funds will be targeted on the basis of need. The reports are to be available for public comment.

The preamble to the regulations states: "The Department will review the submissions to determine that they are complete and in accordance with the statutory requirements. Funds will be made available to any state filing a complete submission." This language strongly suggests that HHS will not exercise judgment on the adequacy of the plan. It seems unlikely, for instance, that HHS would reject a plan because it was not going to address a need identified by a community group at a public hearing or in written comments.

Because HHS apparently will not exercise such judgment, governors are under no pressure from the federal level to pay attention to comments on their block grant plans, nor does HHS do anything to make them feel obliged to justify any failure to modify their plans on the basis of the comments.

Record-Keeping; Reports

Again, the regulations fail to carry out the statutory provision stating that the Secretary will prescribe the form and content of states' annual administrative and fiscal reports on block grant expenditures. The preamble to the regulations merely directs states to keep records "sufficient to permit the preparation of reports required by statute and to permit the tracing of funds to a level of expenditure adequate to insure that funds have not been spent unlawfully....Except for these provisions, the Secretary is not prescribing any data collection requirements and is not prescribing any format or content of any information that the act requires the state to collect." The regulations do not define any of the vague terms in this statement, such as "adequate" or "sufficient."

These minimal requirements for record-keeping, plus those for after-the-fact reporting, seriously curtail a state's accountability for its use of the funds. Other than in the preamble, the regulations themselves do not even address reporting requirements, allowing the vague statutory language to stand on its own.

The law requires a report, beginning in FY 1983, describing how the state has met the goals, objectives and needs identified in its previous report. There are no requirements for data on who was served by sex, race, age, handicap, income, etc., nor on what services they received, nor for any data that would facilitate evaluation of program effectiveness.

Past experience with block grant programs, including General Revenue Sharing and Title XX, has shown the difficulty of tracking block grant funds in the absence of detailed data reporting. The minimal requirements for the new block grants will continue and intensify this unacceptable situation.

Federal Oversight and Monitoring; Audits; Complaints

The preamble to the HHS regulations leves no doubt as to where the department stands on the issue of federal oversight: "A basic purpose of the block grant legislation is to simplify state grant administration and minimize federal involvement by placing far greater reliance on state government. Accordingly, the block grants will be exempt from the usual departmental grant administration requirements....We are establishing a fiscal and administrative standard providing maximum discretion to the states and placing full reliance on state law and procedures. Under this standard, a state will not look to Part 74 (of the Code of Federal Regulations) for such matters as property procurement standards or what is an allowable or unallowable cost. Rather, the state's laws and procedures governing the expenditure of its own revenues will govern."

The regulations themselves do not even address oversight or auditing, simply leaving it to the preamble to describe how HHS is interpreting the statutory requirements.

The law requires annual audits for the Low Income Energy Assistance Block Grant and for three of the health block grants: Preventive Health and Health Services, Alcohol and Drug Abuse and Mental Health Services and Primary Care. Audits are required every two years for the Maternal and Child Health, Social Services and Community Services Block Grants.

In the case of community services, the regulations state that the Title XVII requirement for an audit every two years supersedes the language of the block grant itself, which requires an annual audit.

Audits are to be conducted by an "entity" that is "independent" of the agency administering the block grant, according to the statute. Here again, however, HHS gives the states maximum discretion for self-regulation.

The preamble states: "The block grant programs are intended to confer great discretion on the states, which by statute are the primary auditors of their own expenditures. The fundamental check on the state's use of block grant funds is the state's accountability to its citizens, which is implemented by public disclosure within the state of information concerning use of the funds. Accordingly, when an issue arises as to whether a state has complied with its assurances and the statutory provisions, the Department will ordinarily defer to the state's interpretation of its assurances and the statutory provisions. Unless the interpretation is clearly erroneous, state action based on that interpretation will not be challenged by the Department."

The preamble adds that "the Department will rely on state audits if the audits have been conducted in accordance with the Comptroller General's standards....Any additional auditing by the Department would build upon the state's work."

Regarding both complaints and audits, the federal role, once again, is minimal. According to the regulations: "In resolving any issue raised by a complaint or federal audit, the Department will defer to a state's interpretation of its assurances and of the provisions of the block grant statutes, unless the interpretation is clearly erroneous."

The next sentence, however, modifies the extent to which the state will judge its own conduct: "The Department will provide copies of complaints to the independent entity responsible for auditing the state's activities under the block grant program involved. Any determination by the Department that a state's interpretation is not clearly erroneous shall not preclude or otherwise prejudice the state auditor's consideration of the question."

Regulations for complaint and hearing procedures are somewhat ambiguous and may be clarified when the regulations are published in final form, according to an HHS official. While not explicitly providing for a hearing when a complaint is received, the HHS official said the department's intent is to allow the agency receiving the complaint to bring the parties together on an informal basis to discuss the complaint, before the agency determines whether funds have been misspent.

Complaints may be filed when the state is deemed to have failed to use its block grant funds in accordance with the block grant legislation or the assurances and certifications required by law and included in the state's plan. The regulations identify in brief the contents of the complaint and say where they should be addressed for specific block grants.

The Department will "promptly" furnish the state with a copy of the complaint and the state will have 60 days (or longer if the Department agrees) to comment on the complaint. "The Department will conduct an investigation of complaints where appropriate" and will provide a written response to the complaint within 180 days of receiving it.

Before a state can be ordered to repay funds that the Department has determined were spent improperly, the state is entitled to a hearing. The state may appeal the decision resulting from the hearing to the Department's Grant Appeals Board (for which regulations were published in the **Federal Register** on August 31, 1981).

The preamble to the regulations states that HHS "has provided for a comparatively informal hearing procedure rather than a formal hearing before an administrative law judge....The flexible procedure adopted is designed to resolve questions in a fair and expeditious manner."

Thus, the regulations state that "participation as parties in the hearing by persons other than the state and the Department is not permitted" — though an HHS official said the complaining party could be called as a witness by either side — and that "the use of interrogatories, depositions and other forms of discovery shall not be allowed." It remains to be seen whether states comply with the intended informal spirit of the hearings, or whether they use these regulations to thwart a fair airing of the complaint.

The regulations further state that the hearing shall be public, except when the Secretary or the presiding officer decides otherwise. The presiding officer is to be an HHS employee, designated by the Secretary, who is to be "free from bias or prejudice and may not have participated in the investigation or action that is the subject of the hearing or be subordinate to a person, other than the Secretary, who has participated in such investigation or action." All parties to the hearing may be advised and accompanied by counsel.

Nondiscrimination

The statute prohibits discrimination on the basis of age, handicap, race, color, national origin and sex for the four health block grants and those for community services and energy assistance.

While the Social Services Block Grant does not include explicit nondiscrimination language, federal laws prohibiting discrimination on the basis of sex, race, age, religion and handicap apply. These prohibitions will be clarified in the final version of the block grant regulations, according to an HHS official.

The regulations do not elaborate on these provisions. The preamble states that, with one minor exception, the Secretary will rely on existing nondiscrimination regulations, rather than developing new ones for the block grants. (The exception is that nondiscrimination assurances required by the law are to accompany states' applications for block grant funds.)

It should be noted that up until now, all enforcement against discrimination on the basis of race and handicap has occurred at the federal level. Advocates, therefore, are concerned that the block grant regulations fail to address meaningful enforcement of basic nondiscrimination protections.

Further, the regulations fail to clarify that the complaint procedures do not apply to investigations of alleged violations of federal civil rights laws. This suggests that the vague and unspecific block grant complaint procedures supersede the more carefully drawn procedures for investigating violations of basic federal civil rights protections, such as Title VI of the Civil Rights Act and Section 504 of the Rehabilitation Act, which pertains to handicapped persons.

It is unfortunate and dangerous that the block grant regulations do not specify that they do not supersede the enforcement procedures set forth by federal civil rights laws and their own regulations, especially as it can be argued that the legislation establishing the block grants clearly demonstrates Congress's intent that enforcement and complaint procedures of the various federal civil rights statutes apply fully to the block grants.

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BLOCK GRANT REGULATIONS

Community Development Block Grant — Small Cities Program

Interim regulations for the Small Cities (non-entitlement jurisdictions) program under the Community Development Block Grant are in a holding pattern, pending completion of a mandatory 30-day congressional review. As the 30 days must occur while Congress is in session, the holiday recess, which lasted until January 25, delayed completion of the review. HUD published the Small Cities regulations in the November 20 **Federal Register** (pp. 57255-57261), but apparently is delaying publication of CDBG entitlement jurisdiction regulations until the status of the Small Cities regulations is resolved.

In the meantime, there are several issues of concern in the proposed Small Cities regulations:

Principal Benefit

The primary objective of the CDBG program -- that funded activities principally benefit low and moderate income persons — is considerably downplayed in the new regulations. Indeed, the Department of Housing and Urban Development's original draft of the Small Cities regulations did not even mention this objective. Citizen and congressional objections to this omission led to development of the currently proposed regulations, which state that the primary objective can be achieved through activities that carry out one or more of three national objectives, including aiding in the prevention or elimination of slums or blight and meeting urgent community development needs.

Besides diluting the emphasis on low and moderate income benefit, the regulations decline to set a uniform definition for low and moderate income, allowing states to use their own definitions, based on either federal standards "or upon state conditions or determinations consistent with the intent and objectives of the act."

The preamble to the regulations notes that in administering entitlement CDBG programs or non-entitlement programs that individual states choose not to run, HUD will continue to use the income eligibility standards of the Section 8 program. "The Department believes, however, that other definitions may be equally consistent with congressional intent."

This approach raises serious questions of equity and effectiveness. If states are free to set their own definitions for low and moderate income, what will ensure that the national goals of the program are achieved? In this time of declining budgets at all levels of government, moreover, it is of maximum importance that funds that are meant to be targeted by income are, in fact, so targeted. A uniform income standard would be a significant step toward this goal.

Record-Keeping and Grantee Performance Evaluation

Like the regulations for the HHS-administered block grants, HUD's regulations explicitly state that the Department will give a great deal of discretion to the states for interpreting the law. In the case of the Small Cities program, the proposed regulations state that "In exercising his obligation and responsibility to review a state's performance, the Secretary will give maximum feasible deference to the state's interpretation of the statutory requirements consistent with the Secretary's obligation to enforce compliance with the manifest intent of Congress as declared in the act."

This intention comes through clearly in the regulations pertaining to record-keeping: "Each state shall establish and maintain such record-keeping requirements as the state shall deem appropriate in order to facilitate review and audit by the Secretary of the state's administration of grants...and shall establish record-keeping requirements for units of general local government receiving assistance which shall be sufficient to facilitate such reviews and audits of such recipients as may be necessary or appropriate to determine whether they have carried out their activities in accordance with the requirements and the primary objectives of the act and other applicable laws."

The regulations do not define the terms "necessary" and "appropriate," leaving this, too, to the states. Similar language is used with regard to performance reports. This is particularly disturbing, as both Congress and the Administration have placed great emphasis upon "back-end review" of the CDBG program since the front-end application process has been largely eliminated, according to the preamble to the regulations. Nevertheless, "the Department...is not attempting in these regulations to prescribe in detail the manner in which states are to report their activities to the Secretary."

Not only is this troublesome in terms of HUD's receiving sufficient information on which to base performance review, but it flouts congressional intent, as stated in the Senate committee's report on the CDBG legislation: "The committee's proposal re-emphasizes the post-grant review and audit process as the proper point in time to determine consistency and appropriateness of local CD programs." It is difficult to imagine any degree of consistency within a process that permits 50 different methods of record-keeping and reporting.

Civil Rights

In this area, too, HUD seems to be downgrading the importance of an important area of federal concern. While prior CDBG regulations spelled out the exact civil rights obligations of grantees, the new proposed regulations refer only to conformity with the Civil Rights Acts of 1964 and 1968 and other applicable law. The regulations do not, however, describe grantees' responsibilities under these laws.

Citizen Participation

The regulations do not address citizen participation, giving states no guidance as to how citizens can comment on the state's published statement on its intended use of CDBG funds, nor do they address public access to program information.

Citizen participation and public comment become meaningless terms when there are no guidelines for making it a reality and when public access to information is not guaranteed.

Multi-Year Commitments

Here, pressure from city officials caused HUD to revise its original regulations, which did not require honoring of multi-year funding commitments made prior to passage of the new CDBG legislation. The proposed regulations do require that states honor multi-year commitments made in FY 1980 and 1981, providing the funded localities request it and that HUD determines they have performed adequately. HUD is to be responsible for administering funds that it distributed under such commitments, while the state will administer funds that it distributed.

Matching Funds

Under the Small Cities legislation, states that choose to administer the program must provide a 10% match from their own funds for community development activities. Such activities do not have to relate directly to activities undertaken with CDBG funds, nor must they take place in communities receiving nonentitlement funds. The regulations allow activities that improve distressed areas or benefit low and moderate income households, as well as housing and community development activities that are not eligible under the act, such as construction of new housing and rent subsidies.

Administrative Funds

States may not use CDBG discretionary grants to cover administrative costs, which must be paid out of state funds.

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VI. PRESS CLIPS

The following pages include some of the news coverage and editorial comment during the debate on block grants and the early block grant implementation period.

Times-Union, Rochester, N.Y., Thursday, December 3, 1981

No sense of nationhood in Reagan's federalism

Last month, President Reagan talked with five reporters about his concept of federal-state relations. Columnist Peirce is a specialist in that field.

NEIL PEIRCE

One has to credit President Reagan for taking a sincere interest in the U.S. federal system and elevating it to its most prominent position in American debate in over a half century. He even took the unusual step of designating federal questions as the sole theme for our briefing.

Yet as I walked out of the Oval Office, I felt no small measure of despair. Reagan had come close in the interview to confirming the view of skeptics who say his "new federalism" amounts to little more than shipping programs down to the states as fast as possible.

I asked him what should be the federal government's "domestic functions"? His sole answers: "national security" — and then, later in the interview, "interstate commerce" as well.

Mr. Reagan had spoken out for raising and spending taxes at the same level of government, for block grants over smaller categorical grants so often associated with "that extra layer" of bureaucracy.

He had pointed with pride to his administration's removal of hundreds of regulations, his personal consultations with hundreds of state and local officials during his first 10 months in office.

He had discussed his hope to identify sources of revenue that could be turned back to the states.

Why, then, the dismay?

FIRST, because Mr. Reagan seems not to appreciate fully the turmoil into which his rapid budget-cutting has thrown state and local budgets.

The state-local sector absorbed $13 billion in cuts in the first budget round. In September the president sought to cut another 12 percent.

Now he would give no guarantee that state-local aid — even general revenue sharing and the new block grants — might not suffer still more cuts in the next budget.

Mr. Reagan pointedly ignored the alarm voiced by the nation's governors in early November before the Senate Intergovernmental Relations Subcommittee, chaired by Sen. David Durenberger of Minnesota.

The governors had warned of "disarray and chaos" in state capitols because of the federal cuts. Richard Snelling (R-Vt.), National Governors Association chairman, had cited one Congressional Budget Office scenario that aid to state and local governments could virtually disappear by 1984, so great are the pressures on the budget.

So the governors had said Washington simply must trim the so-far sacrosanct "entitlements," ranging from Social Security to veterans benefits to Medicare, the defense budget, even Reagan tax cuts.

But Reagan, in the interview, dismissed Snelling's urgent call for a two-year moratorium on further cuts in aid to states and localities, so that they might institute some rational budgeting and planning.

"It would be great if we could afford it," he said.

The president gave no prospect of major budget cuts other than in aid to states and localities — even though that aid accounts for only 15 percent of the federal budget and is dwarfed by entitlements and defense spending.

THE PRESIDENT brushed aside one goal of the governors — a sorting out of roles, with welfare and Medicaid becoming federal responsibilities and such fields as education and transportation passing totally to the states.

He simply reiterated his long-held opinion that welfare costs are best controlled locally. He showed no interest in negotiating such questions.

The president also scorned a resolution, passed by the western governors in Arizona Nov. 7, opposing further cuts in the domestic budget absent "a significant sorting out of functions between the federal government and the states."

Said Reagan: "Most of those western governors are Democrats." In fact, seven are Democrats, six are Republicans.

What the president fails to grasp is that the protests by the governors, and the demands to be acknowledged as constitutionally equal partners, are bipartisan, broad-based and growing — a development that may mark a historic turn in federal-state relations.

FINALLY, the president demonstrated almost no sensitivity to the great new differences in wealth developing among the states — the gulf between the energy-poor states and those in the South and West with vast reservoirs of oil, gas, and coal which they can tax heavily.

Sen. Durenberger has asked how these differences jibe with Reagan's plan to push vast program areas to the state level. He questions whether it's "fair to expect the states and localities that suffer from a declining economy to provide the same level of public services as those states flush with energy-related revenues?"

The president was asked Durenberger's question during the interview. His response was that an energy-rich state enjoys no greater taxing advantage than, for example, California with its multi-billion dollar fruit and vegetable crops. Governments tax everything they can touch, he suggested; energy severance taxes are no different.

Even if one agrees that some level of state energy severance taxes is justifiable, the sweep of that argument is startling.

It ignores the fact that energy-rich states are pulling in billions of dollars, based on the spiraling prices of energy, and can easily absorb the Reagan budget cuts, while the energy-poor states, especially those with declining industrial bases, are pushed to the wall.

Any interstate disparities in wealth, said the president, are strictly the states' own problem. "The built-in guarantee of freedom is our federalism. That makes us unique. That is, the right of a citizen to vote with his feet." Any inequalities should be taken care of by "the marketplace."

He apparently feels that the federal government has no obligation to people or states or places dealt crippling blows by the economic vagaries of the times.

Absent in this, to my mind, is the essential sense of nationhood and nationwide interdependence and mutual responsibility that ought to underpin any federalist philosophy. Thus my feelings of despair at the close of the Reagan interview.

Peirce writes a syndicated column on state and local governments.

THE WASHINGTON POST, SUNDAY, NOVEMBER 8, 1981

Vernon E. Jordan Jr.

What Are the Poor Supposed to Do?

The Reagan administration steadfastly persists in its refusal to answer the basic question its policies raise: "What are poor people supposed to do while their survival programs are cut back and before the promised prosperity takes effect?"

Even if the Reagan program works—and it shows every sign of failing—it will take years before it results in sharply increased employment and a tolerable inflation rate.

In effect, the federal government is telling poor people to wait until happy days come back again. And until they do, it seems to be suggesting that other institutions should fill the gap between the little that poor people have and what they need to survive.

Prime among those institutions are state and local governments. The idea behind the misguided block grants is that local officials can choose to support the programs that benefit their communities.

A fine idea, but not for the real world of limited resources, political domination of local governments by those least interested in the plight of the poor and forced competition among worthy causes for diminishing dollars.

Experience demonstrates that few state and local governments will continue key programs at adequate levels. Barely a few weeks into the new fiscal year, we already see day-care centers closed, welfare grants reduced, school lunch programs cut back and other social services trimmed, as local officials refuse to make up for the lost federal dollars.

There is a lot more that is wrong with the block grants idea, or to use the phrase that more accurately describes its thrust, states' rights.

But the overriding reality of block grants is that they are a means of shifting national responsibilities to localities ill-equipped to deal with them. They virtually ensure the end of important survival programs and the starvation of others from either outright neglect or fiscal constraints.

Where can the poor turn, then, if not to state and local governments?

Some suggest the business community will step in and increase its job creation and social responsibility efforts. Doubtless some companies will. Enlightened business leadership has come out forthrightly for just such an activist role. Many have called for increased corporate contributions to charities, job campaigns and greater corporate activism.

But it is not realistic to expect much relief from the business sector. Corporations have been allowed to donate up to 5 percent of taxable income, and the new tax law doubles that to 10 percent. But corporate contributions have averaged about 1 percent for some time now, and there is little reason to assume that the maximum will be reached in the future.

What about private voluntarism, then? The president correctly stressed the American tradition of voluntary support for community needs. Individuals have always been generous with their contributions and their time.

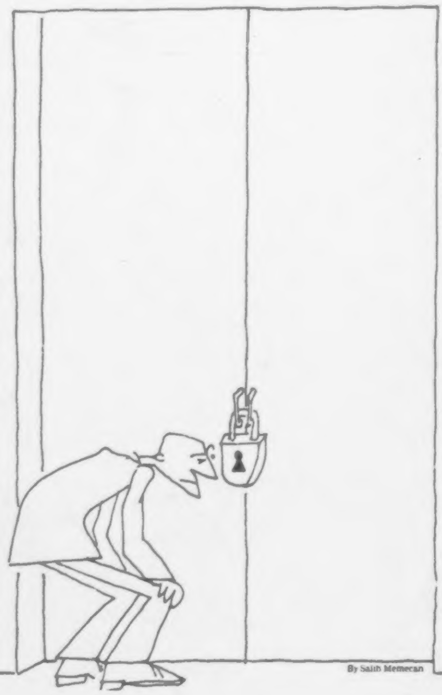
But there are limits to voluntarism that the administration refuses to acknowledge. Recent studies indicate that the voluntary sector will lose some $27 billion in federal aid between 1981 and 1984, and it is unlikely that private donations can plug the gap. Most private giving is to religious organizations, and the social welfare institutions, currently most dependent on federal monies, represent a shrinking sector of the charitable pie.

Conceptually, too, the stress on voluntarism is muddled. We should be well beyond the morally primitive stage of believing that the basics of human existence—jobs, income, food, shelter and health care should be provided by individual charity and not by government acting on behalf of a shared community sense of human rights.

Some state and local governments will try to fill the gaps as best they can. Some parts of the private sector will step in to create job and training opportunities and support worthwhile community projects. Some individuals and non-profit agencies will stretch their efforts to the limits to try to help those in need.

But taken together, all of those worthy efforts will be unable to replace the government's resources or its fundamental responsibilities.

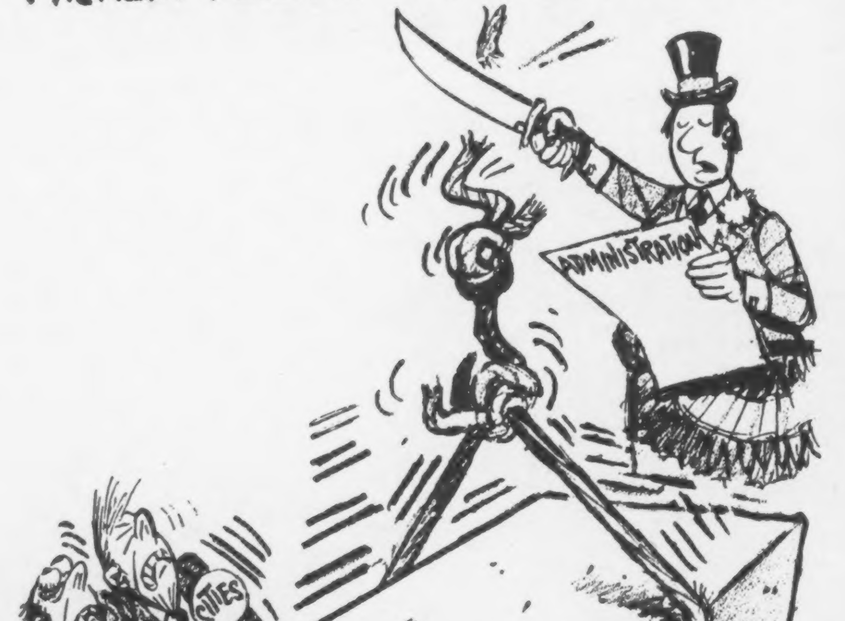
The question: "What are the poor supposed to do?" remains unanswered.



By Salih Memecan

The writer is president of the National Urban League.

"I HEREBY DECLARE THIS CORNERSTONE..."


ADMINISTRATION
CITIES
STATES
NEW NEW FEDERALISM BLOCK GRANTS
PUBLIC SERVICES
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WASH POST 12/19/81

The 'New Federalism' Looks Good — From Washington

IT wasn't so surprising that when the National League of Cities gathered in Detroit last week, President Reagan's "new federalism" came in for plenty of flak. What was surprising perhaps was the intensity of the bipartisan attack. New York's Democratic Mayor Koch said the Administration's program to give local governments responsibility for scores of programs once supervised and largely underwritten by Washington was a "sham and a shame." But many officials, some once regarded as influential supporters of the President, also complained bitterly about the financial strains on local governments. The League's departing president, Mayor William H. Hudnut 3d of Indianapolis, regarded as a Reagan ally not long ago, said "too much has been asked of cities and other recipients of these Federal programs."

Gov. Richard A. Snelling of Vermont, a conservative Republican who heads the National Governors Association, emerged as a leading critic of the "new federalism" as practiced so far. He said it was leading the nation toward "an economic Bay of Pigs." (As an example of the effects, Pennsylvania, on Dec. 12, was to begin trimming welfare aid to families with dependent children in accordance with new Federal guidelines.)

B. Drummond Ayres Jr., a Washington correspondent of The New York Times, conducted separate interviews last week with Governor Snelling and with the Administration's chief defender of the program, Richard S. Williamson, White House assistant for intergovernmental affairs. He first asked each how the "new federalism" seemed to be working.

Richard A. Snelling

Answer. I assume that by the 'new federalism' you mean some sorting out of the several responsibilities of the Federal, state and local governments, and some conscientious effort to accomplish the constitutional role — making sure that equal justice and opportunity did not stop at state borders.

One of the ways to do that, certainly, is to provide equal opportunity and capacity through block grants and the like, for the simple reason that that's the way that the Federal Government could adjust the very distinctly different capacity of different states and local entities and establish fairly clear goals of national interest in such a program. And then allow the states to allocate those funds and, within broad guidelines, to develop programs which would be specific to the priorities of those states in implementation of the goals.

What we've really had so far is simply budget cutting. There has been a very small, minute movement towards reallocation and redesign of grant programs. There are some 59 programs out of nearly 600 categorical grants which have been packaged into 9 so-called block grants.

However, most of those have strings attached which, to all intents and purposes, prohibit the states from making real priority decisions. So to me the most important thing to communicate is (that so far there has been) no test of the new federalism.

People Are Talking Shorthand

Q. Is there a danger that the Administration has oversimplified the problems that face the nation?

A. I don't like to characterize the views of another as too simple. Maybe what is happening is that people are talking in shorthand and shorthand can be a representation of a very complex subject.

I think it's very clear that the Federal Government has intervened in many areas where they need not intervene in order to assure people of their constitutional rights and to promote the general welfare.

Now, on the other hand, it depends a great deal on what the President means and I am eager to have him explain. If he literally means that there is no cause for governmental support of programs at the Federal level to assure equality of opportunity and of capacity across the state borders, then I would say simply that I see no Constitutional justification for that.

That view was absolutely rejected by the Federalist papers. The lengthy dialogue between Mr. Hamilton and Mr. Jay and Mr. Madison made it quite clear that they were not advocating the Constitution in the sense that every boat was on its own bottom and each state had only a responsibility for the common defense to others.

Q. Have the states, cities and counties been asked to shoulder too much of the burden?

A. Certainly, in my judgment. The total budget which goes to non-Federal agencies is modestly more than 10 percent of the total national budget.

In essence, the game plan has been that there will no changes on the revenue side from the initial victory in tax cuts, that defense is not to be discussed and that entitlements cannot be discussed, but at the same time, there's great concern about a projected 70-, 80-, 90-billion-dollar deficit.

And so I think that if the only source for a budget cut is that which is accessible because it's under control and you may not bring under control that which is not under control — so-called entitlements — that that requires a much greater burden for state and local governments than is fair, appropriate or for that matter likely to stand the test of time.

The Government's Obligations

Q. The President, in a recent interview on federalism, indicated that he would not look favorably upon a sorting out that had the Federal Government picking up most of the cost of welfare. Can there be a new federalism if the Government doesn't pick up the cost of such big-dollar items?

A. There are really two different ways to sort things out. One would be to say the Federal Government will do all of certain things and state and local governments will each do all of certain other things.

And there's another way entirely, which is that a certain degree of Federal interest would be defined in each of those areas that are described in the Declaration of Independence as being of national concern.

Congress would state a national interest in each of these areas and stand willing to augment the capacity of both states and local governments to the extent that that capacity was inadequate, with reasonable effort, to afford the constitutional level of aid and comfort to those who were in need.

And that, I believe, could be accomplished in a way which would reduce the Federal expenditures; which would provide much greater flexibility to states and local governments in determining how they would implement programs.

It would maintain the constitutional responsibility not to ignore the plight of people on the basis of the city or state in which they resided and in many cases were born and are really unable to leave.

Q. In conclusion, what would be your recommendation to the President about the new federalism?

A. To proceed along a middle ground; to approach fiscal stability by a moderate reduction in taxes, a moderate reduction in entitlements, and to proceed year after year to turn over to the states, along with their share of this fiscal restraint, a greater and greater responsibility for designing the programs necessary to assure in their states that the constitutional guarantees to our citizens are fully met.

To a very great extent, the problems in Miami today are the result of Federal actions, by way of immigration policy. I don't see how we could ignore the consequences of Federal economic policy on the problems of, say, Detroit.

So I frankly believe that the Constitution's call for power to implement the Bill of Rights, with respect to the common welfare, requires the Federal Government to assist the states when the states do not have the capacity to afford the citizens their constitutional rights.

Richard Williamson

Answer. I think the accomplishments have been significant. One, the public debate on how America is governed is louder, discussed with more energy and clarity, than in recent memory. I think all parties will concede that, because Ronald Reagan has made it clear to the American people he wants to change how America is governed and a large part of that is redistributing responsibilities and authority among the units of government.

Second, the budget cuts themselves addressed his view of what national priorities are, such as the budget should deal with national concerns and get out of the business in certain other areas. He made the proposals and they were adopted, in large part, both by the Republican Senate and the Democratic-controlled House.

Third, the President proposed dramatic consolidation of categorical grants, and while he was not as successful as he would have liked either in number or in providing as much flexibilty as he wanted, he did get 57 categorical grants combined into block grants. And, as a National Governors Association publication said, it was the most dramatic shift in the grant process the Federal Government has had in the last 50 years.

Fourth, in the regulatory relief area, the Vice President has made substantial progress in over one-third of the initiatives he's taken to provide greater relief to state and local governments.

So all those things have begun, and the President has established a vehicle both for a higher participation — the Advisory Commission on Intergovernmental Regulations — greater consultation with state and local officials — 1,350 in the first 11 months in office — and the formation of a Presidential Advisory Committee on Federalism to address these matters.

So I think there has been progress. Clearly not as much as we'd like, but there has been progress — that seems irrefutable. With respect to the immediate goals, we want to go more aggressively and further on block grants. We want to address, and hopefully come up with a formula on the revenue return issue. We want to proceed with even greater vigor the regulatory relief area. And we hope that some of these other issues — such as sorting out the severance tax issues — can be debated freely and there can be a development of consensus and guidance on where we should go.

Q. What about all the criticism of the new federalism?

A. There are legitimate concerns if one is a state or local official, because they face a kind of economic uncertainty. Congress still hasn't passed the appropriation bill so they don't have the funding levels for this coming year.

Secondly, the state and local officials face problems because you're in an era of strained public resources foreshadowed by the adoption of Proposition 13 in California and Proposition 2½ in Massachusetts, and in the election last year of Ronald Reagan and many conservative Republicans in the Senate.

Thirdly, there are dislocations any time you change the way Government does business. And Ronald Reagan is leading a quiet revolution. It's not only his economic program but also the component parts which devolve responsibilities back to state and local officials.

All of those things, coupled with the fact that we're in a recession now, make it a tough job to be a state or local elected official. Those are understandable political concerns.

Unfortunately, one does not have the luxury of making the structural changes, of devolving responsibilities back to state and local officials, in a perfect world. You get the world as you're given it. Ronald Reagan inherited, as he said during the campaign and when he was first elected, the worst economic mess the nation has faced since the Great Depression. He told the American people what he planned to do about that during the campaign: he was going to make significant budget reductions, significant reductions in the marginal tax rate, regulatory relief and try to stabilize the monetary policy.

Confusion is Inevitable

Q. There were a number of complaints in recent weeks that the view of federalism as it comes from the White House is rather contradictory. Is any thought being given by the President to a major federalism speech?

A. First, I think there is some confusion. To paraphrase something Winston Churchill once said, There are two things you should never watch being made: one is sausage and the other is legislation. And I think the same thing can be said about any substantial effort to change the way the Federal Government is doing business. So there are at times contradictions, there are some confusions, there are some failures to have the clarity we all would like.

Secondly, the President made a major speech to the National League of Cities in March on the federalism issue. In late July, he addressed the National Conference of State Legislators on the federalism issue. Many of his speeches, from his remarks in Yorktown celebrating the Bicentennial to speeches before the National Business Alliance, have had themes in them and paragraphs in them dealing with federalism questions.

As to whether or not there should be a speech devoted solely on federalism in the near future, it's a possibility. I would suggest, however, that what we'll probably see is some of those themes elaborated on in more detail early next year.

Q. Can you tell us what the President meant by his recent statement to the effect that those who find their life unbearable in one place as a result of the new federalism always have the option of voting with their feet?

A. I think he endorses what Louis Brandeis once said, that the states should be laboratories of experiment, and diversity is good. And to a degree, (judging) what is done in Connecticut as opposed to what's done in New York, people have the opportunity, through the political process, to participate in those decisions. Indeed, they can participate more actively and effectively in most cases at the local or state level than at the Federal level.

Now the question of whether that means that there's no commitment to a bare minimum for the truly needy, no, I don't think he's saying that. As he made clear in setting his budget priorities early this year for 1982, he was committed to what he called a social safety net.

A mistake in Washington is a mistake for all 50 states; a mistake in Springfield, Ill., or in Salem, Ore., or in state capitals — Albany, N.Y. — only affects that state and they can learn from each other.

States Growing Disillusioned About 'New Federalism' Cuts

1/3/82 NYT

By JOHN HERBERS

In state capitals across the nation, the once positive response to President Reagan's "new federalism" plan to return authority from the Federal Government to the states has turned sour as budget cuts and the recession squeeze many state treasuries.

No state is moving to fill the gap left either by the Reagan Administration's deep cuts in Federal social services administered by the states or by the reductions in Federal aid to cities.

And even conservative supporters of the President say that about the only authority state officials have received so far is to decide which services should be cut.

State Officials Interviewed

Those were among the findings in interviews with officials in all 50 state capitals, which also disclosed that, after years of relative growth and prosperity, many states face budget deficits, new taxes or reductions in services and personnel.

In New York, New Jersey and Connecticut, a region that has enjoyed a relatively stable economy, only Connecticut is cutting its budget to prevent deficit spending. Another lean budget is being prepared in New York, and New Jersey is predicting a possible budget surplus.

In interviews with state officials from Maine to California, comments varied widely. Gov. Richard D. Lamm of Colorado, a Democrat, contended that the states were being forced "toward the worst of all situations," presiding over cuts in basic services with no means of preventing them. And Gov. George Nigh of Oklahoma, a conservative Democrat, said that although he agreed with what the President was doing, "I think he's creating havoc in the states with his timing."

Mr. Reagan and his spokesmen say that his first priority has been to bring Federal spending under control to improve the economy. Thus, he says, he wishes to turn more authority over to the states and will soon recommend some new source of revenue for them.

Officials of states such as Texas, Oklahoma and Louisiana, which are flush with revenues from taxes on energy resources, say they never had any intention of financing the kind of social welfare programs the Federal Government has paid for in recent years. They prefer to use the severance tax windfall from energy production to finance capital improvements or reduce personal and corporate income taxes.

States such as California, Minnesota and Connecticut, where officials are more committed to social programs, are faced with such immediate shortages that they have not considered filling the void left by the reduction in Federal funds.

With some officials predicting that the recession may worsen or continue for some time, most of the state legislatures will meet in regular or special session early this year to try to stretch revenue or enact new taxes.

As the legislative season gets under way, the state officials noted these occurrences:

¶A clear majority of the states have cut or are in the process of cutting services and personnel beyond the level resulting from the Federal cuts.

¶Some states, including Ohio, South Carolina and Washington, have been forced to adopt major tax increases to stay solvent despite budget cuts. But most are scrambling to put together enough small increases in taxes on such things as tobacco and alcohol and in fees ranging from drivers' licenses to admission to state parks to tide them over until the situation improves.

¶A number of states not yet forecasting a revenue shortage for current fiscal periods have been drawing on reserves or special funds as the recession has spread into new areas of the economy.

Not a New Problem

Fiscal problems are nothing new for states. Most of them experienced annual shortages of revenue in the years after World War II, when there was high constituent demand for new schools, colleges, highways, increased teacher salaries and other facilities and services. The response was usually an increase in taxes or Federal aid to cover the shortfalls.

But now the states are in an entirely different position. Except in states such as Utah, where the birth rate is unusually high, there is less demand for schools and colleges. Until the Federal budget cuts and the recession hit simultaneously, many states were moving toward giving more assistance to hard-pressed cities or repairing long neglected water systems, highways and bridges.

Since the 1970's, however, the majority of states, in response to voter pressure, have been limiting spending and taxing, and many contests for state office have been dominated by candidates' promises to reduce or refrain from raising taxes. In Washington last November, for example, while the state was in the process of raising taxes and cutting services, the voters approved a ballot proposition eliminating the inheritance tax.

Under those circumstances, officials in a range of states made it clear, their main concern is providing the basic established services, not assuming a new role in the Federal system that the Reagan initiatives would allow, provided new revenue could be obtained.

"There is no way we can ask the taxpayers to pick up the tab" for reduced Federal programs, said Gov. William A. O'Neill of Connecticut.

Impact on the Blind and the Lame

In Louisiana, State Senator B. B. (Sixty) Rayburn, chairman of the Senate Finance Committee, said that the Federal cuts would hurt "the halt, the blind, the lame, the old,.'

"Maybe we can supplement some of the programs," he added, "but if we pick them up we'd find ourselves on down the road in the same shape as the Federal Government."

Aside from the gloom caused by having to decide which cuts can be minimized and which programs might be dropped altogether, state officials have been confused over the amount of Federal money they may receive over the next two years because of Washington's delay in making appropriations.

Every figure was reported as a guess. "These are flaky numbers," said a staff member of the Illinois Legislature, explaining that the lawmakers had to guess at how much in Federal grants they would appropriate for a particular program. "But it is better to have a flaky number than an unappropriated account."

As 1981 came to a close, the National Governors Association said it had finally calculated that, when inflation was taken into account, financing of major programs to the states for the current Federal fiscal year, which began Oct. 1, would be 26.5 percent below that of the previous year.

Another source of confusion has been the nine block grants that the states were permitted to take over, under reduced financing, from the Federal Government on Oct. 1, the start of the fiscal year. These were formerly 57 categorical programs in health, welfare, community development and other areas that had been chiefly administered by a variety of Federal agencies.

Initially, the governors were primarily responsible for accepting the block grants and deciding which were to be continued and which eliminated. But, in a number of states, rivalry over control has developed between the governor and the legislature, and more conflict is assured for 1982.

All this has left a bitterness toward the Reagan Administration, particularly in state capitols controlled by Democrats.

In Maryland, for example, state officials accuse the Administration of making it hard for the states to use what power they have.

"To give you an example," said Ejner J. Johnson, chief aide to Gov. Harry R. Hughes, "the energy assistance program is designed to keep people warm in winter. But they want to give you the money in equal amounts every quarter. We don't need the money in July, we need it now, and these guys in Washington are sitting on the money. You know why? They want to keep it in the bank and draw interest on it, and we've got people freezing."

Many state officials contend that by the time that recommendation is made and approved by Congress, if at all, the decline of the state and local governments will be difficult to reverse.

Both the states' fiscal condition and their ability to assume new responsibilities vary widely. Interviews and documents available in the states and in Washington showed these things about the nation's regions:

Northeast

In a region that has enjoyed a relatively stable economy, Massachusetts stands out as a trouble spot because of a voter proposition that slashed local property and automobile excise taxes. To soften the effect on public services, the state reluctantly provided $265 million in additional aid to local governments for the current fiscal year. To do so, however, it had to order the largest layoff of state employees in Massachusetts history.

About 9,000 workers are receiving pink slips, and some officials fear that the recession, which is only now beginning to be felt in the state, may cause a deficit in the treasury. In any event, the effects of tax cut will dominate state and local government for at least another year, the officials say.

Rhode Island and Connecticut are facing a shortage of revenue and have begun cutting their budgets to prevent deficit spending. Rhode Island has raised its gasoline tax and its fees for using state parks and beaches. Connecticut raised its tax on unincorporated businesses last July and has also begun laying off workers and considering reductions in services and new taxes, to be acted on by a special legislative session in January.

Vermont may avoid a deficit through new gasoline and alcohol taxes, which went in effect last July, and proposed sales and tobacco taxes. Delaware expects to use its emergency reserve fund to avoid a deficit.

New Hampshire, which prides itself on low taxes, recently added a real estate transfer tax and tightened business tax provisions, but it still faces a deficit. A special session of the Legislature has been called for February.

New Jersey, which has been operating under strict spending limits for several years, expects a budget surplus, barring a dramatic change in the economy. And, in an outpouring of optimism seen in few other states, Governor-elect Thomas H. Kean is talking of cutting business taxes.

In New York, Govenor Carey is preparing another lean budget for Jan. 18 that is expected to show an increase considerably less than the rate of inflation. He is trying to avoid a tax increase, but some officials believe one may be necessary.

Pennsylvania, to avoid a deficit, has been trimming services, rescining an income tax reduction, raising the gasoline tax and enacting a plethora of increases in fees and licenses.

In Maryland, where the economy has performed well, no deficit is anticipated, but Governor Hughes is proposing a gasoline tax that would raise prices by 4 cents a gallon at the pump.

Middle West

Prolonged economic decline has ravaged most state governments in the region. Minnesota, long a model of politics and government, faces a deficit of $768 million in its biennial budget by June 1983. Gov. Albert H. Quie, a former moderate Republican Congressman, wants to attack the deficit the way Mr. Reagan did nationally, with huge budget cuts and transfer of authority to the local governments.

Members of the Democratic-Farmer-Labor Party say that would result in skyrocketing local property taxes. The Legislature enacted a $200 million increase in the sales tax just before Christmas, but Governor Quie, who is opposed to raising taxes rather than cutting the budget, promptly vetoed it. Now the Legislature is looking for new ways out. Another round of cuts in services and some new tax increases are expected.

Ohio, which faced an even bleaker future, solved its problem by laying off thousands of employees and enacting a series of "temporary" taxes on sales, tobacco, alcohol and utilities. These taxes either have to be renewed or will be gradually eliminated when no longer needed. If a future deficit developed, it would be wiped out with more cuts.

Under Gov. James A. Rhodes, an ardent supporter of President Reagan, the state, which has an unemployment rate above 10 percent, is now officially committed to providing only "the basics of lean government."

Michigan, the most depressed state in the region, has been making severe cuts in services and borrowing from special funds, and the officials are now saying new cuts will have to be made to prevent a deficit of perhaps $300 million.

Wisconsin and Missouri have been raising taxes and slashing services; Illinois, Indiana, Iowa, North Dakota and South Dakota are cutting services; all of these states are operating close to the bone and face the possibility of further cuts, higher taxes or both in 1982.

South

Federal budget cuts and the recession are beginning to hurt in this region, which has been heavily dependent on Washington to support its large poor population. Even in the prospering state of Florida, public employees are being dismissed and services are being slashed, since the outlook is for a deficit at the end of the fiscal year. Gov. Bob Graham, who has long tried unsuccessfully to raise taxes, has now turned to a policy of tighter budgets and reduced services. He is up for re-election this year.

South Carolina and Tennessee have been cutting services and raising taxes. Mississippi snd Kentucky have been cutting services. Arkansas, North Carolina and West Virginia have been raising taxes. Only Louisiana, with its abundance of energy severance taxes, continues to roll up large surpluses.

Southwest

The future is rosy for state governments in the heart of the Sun Belt, largely because of the general prosperity and increased energy tax revenues. But only New Mexico is expected to consider compensating for reductions in Federal programs anytime soon. Gov. Bruce King is expected to recommend that the state finance a portion of those programs from an anticipated surplus, which puts him in an unusual position.

Texas has been running surpluses for a decade, but Gov. William Clements has been calling for leaner government and has managed to fire about 3,000 employees in the process.

Arizona, with its growing desert populations, is entering a fiscal bind, according to Gov. Bruce Babbitt, and it will forgo much of its construction plans and cost-of-living wages for employees.

Mountain West

No region is growing faster than the mountain states of the West, but Colorado, the center of the energy boom, has suddenly developed a prospective fiscal deficit. The state has run a surplus for several years. But Gov. Richard D. Lamm announced last fall that the $80 billion the Legislature hoped to use to help offset Federal cuts had disappeared, and the state was projecting a sizable shortage. Budget cuts will make up the difference, the officials said.

In Utah, Nevada, Idaho, Montana and Wyoming, revenues have dropped from the projected levels, yet all but Montana have been helped by the enactment of new taxes and fees.

Pacific States

While Alaska is flush with oil tax revenues and Hawaii is holding its own, the three mainland Pacific states are facing severe fiscal restraints.

California has projected a revenue shortage of almost $1 billion for the current fiscal year, which ends June 30. The problem is largely caused by the recession and the delayed effects of Proposition 13, which the voters enacted in 1978, drastically reduced property taxes.

Gov. Edmund G. Brown Jr., attributing the shortage to the recession, said the result was "pain for California."

"That pain is going to intensify over the next six months," he said, adding that he intended to offset the deficit, apparently through new taxes and a government cutback he ordered in October. Like many other states, California has postponed construction projects such as parks, recreation projects and schools to help make ends meet.

Oregon has been through a series of budget crises in the last two years, and the slump in the lumber industry has created another one. Gov. Victor L. Atiyeh has called the Legislature into special session Jan. 11 to deal with the latest deficit, projected at $230 million.

The Governor has said he will recommend further cuts in state agencies. This would be the third round of cuts since mid-1980, despite modest increases in taxes and fees.

But what is happening in California and Oregon seems mild when compared with the troubles in Washington, which is heavily dependent on sales taxes. After enacting $1 billion in tax relief in recent years and paying for it with across-the-board cuts in state agencies, the state discovered in mid-1981 that it was building a deficit of $655 million.

After borrowing money to pay current expenses, Gov. John Spellman, who was elected on a pledge not to raise taxes, got a bill through the Legislature just before Christmas raising the sales tax 5.5 percent from 4.5. At the same time, the Legislature cut deeply into education, social services and salaries.

On Jan. 11 the Legislature will be back, with the Governor planning to to propose still more taxes but promising no more cuts in services. But if the recession deepens, the officials say, the fiscal crisis could go on for a long time.

Anticipating the Ax

As Budget Cuts Near, States Look Skeptically At New Block Grants

In Vermont, Officials Decry Lack of Funds for Needy But Laud New Flexibility

Setback for 'Weatherization'

By BROOKS JACKSON

Staff Reporter of THE WALL STREET JOURNAL

WATERBURY, Vt. – Ronald Reagan's budget cuts take effect next week, and at Vermont's mental-health centers that probably means some low-income working people eventually will pay more for psychiatric counseling.

Beyond that, says Richard Surles, the state's mental-health commissioner, "I can't even begin to tell you what's going to happen."

At this late hour, Mr. Surles ought to be the least confused state mental-health boss in the nation.

Vermont has been working for months to take over some of Mr. Reagan's new "block grants" and this week became the first state to file formal application in Washington for all six of the grants available for immediate use.

These grants will give state officials much greater authority over a variety of programs, including mental-health aid, fuel-assistance payments and child-care subsidies that were formerly run from Washington.

Yet even as they prepare to begin running these programs on Oct. 1, the beginning of the new fiscal year, Vermont officials have only a vague idea how they will work out. Their uncertainty reflects the confusion and the suspense that grip state governments around the nation.

Pros and Cons

The block grants have been a matter of considerable controversy. President Reagan sees them as a first step toward shrinking the federal government by turning social-welfare programs over to the states. Liberals denounce this as a return to the days of states' rights and an abandonment of federal concern for the needy. Reagan aides argue that state officials are closer to the people and often can find ways to use taxpayers' money more efficiently.

Indeed, with a population of only 511,000 to govern, Vermont's officials are so close to the people they are practically on a first-name basis with many who stand to lose benefits. They know, for example, that four parents who are pursuing graduate-school degrees are among the few people scheduled tentatively to lose day-care subsidies.

Vermont officials, too, agree that they can make some economies by tailoring city-oriented programs to fit better in the state's largely rural setting. Mr. Surles says the state's six mental-health centers might be able to do without a dozen full-time staff positions currently required by Washington.

But Vermont officials say the modest economies they will be freed to carry out won't come close to making up for the huge cuts in federal aid dollars. If Congress yields to President Reagan's requests for additional spending cuts, the reductions in services to the needy will be all the more severe.

Sub-Par Income Levels

Vermont has more than its share of needy, despite its tony ski resorts, crafts shops and pubs. Average income per person was $7,839 last year, which is below the national average by $1,619, or 17%. "Usually two or three miles from every condominium on a ski slope there's a trailer park with a septic system that just failed," says Jack Wesley, the deputy director of Vermont Legal Aid.

President Reagan asked Congress to give states much more flexibility than it did. The President wanted $16.5 billion of "categorical" Washington-run programs converted to block grants. But Congress approved only $7.5 billion worth, and some of the new programs have almost as many federal strings as the ones they replace.

But even the wide latitude that the President sought for the states couldn't have made up for the deep cuts he imposed. The National Governors' Association estimates that states could have absorbed cuts of 10% in many programs without severe service reductions provided states got a lot of flexibility. What they got were cuts of 25% and very little flexibility.

In many cases the full human effect of the cuts won't be clear for months. Reductions in school aid, for example, affect mainly the school year beginning in September 1982. But with their head start on the new New Federalism, Vermonters may have a clearer view of the murky future than most.

Mental Health Commissioner

Commissioner Surles has a corner office in a former state mental hospital that was taken over years ago in part by a federal community mental-health program that is being slashed and converted to a block grant. The hospital, converted to office space, now serves as headquarters for many state social-welfare officials.

Mr. Surles likes what he calls "a real attitude shift in the federal bureaucracy." No longer, apparently, will Washington require monthly meetings for the boards of the state's mental-health centers. Those may have made sense in New York City, but Mr. Surles says that in Vermont the snows get pretty deep in January and February, and local people don't like to travel then unless it's necessary.

Still, the commissioner says his funds are being cut 25%, and that means money will have to be hoarded for treating only "the sickest people"–emergency cases, acute psychotics, former mental patients. Schools may be forced to pay for advice they now get free on how to handle disturbed children. And the blue-collar people who seek therapy at the centers will eventually be getting less of a federal subsidy than they do now.

In one area, Mr. Surles says Washington's hand is getting heavier rather than lighter, despite Mr. Reagan's talk about returning power to states. New and tighter rules on long-term disability payments mean Washington will pay the bills for fewer mental patients, which Mr. Surles says has caused a $500,000 gap in his $9.5 million budget. He is facing staff reductions of roughly 5% of those who care for the severely mentally retarded.

Weatherization Coordinator

Frost already has turned some leaves red and amber in the mountains hereabouts, and the nights bring a chilly taste of the cold months to come. Yet the work of caulking and insulating the drafty old homes of poorer Vermonters has slowed to a crawl. Work crews were sharply cut by layoffs forced during the summer by curtailment of the Comprehensive Employment and Training Act program.

At its height, around the time Mr. Reagan took office, the "weatherization" program employed about 150 people and was sealing out the cold in nearly 250 homes a month. Last month, employment was down to about 50 people. Only 100 homes were weatherized, of the 30,000 whose occupants have incomes small enough to qualify for the free service.

Jeanne Van Vlamdren, who oversees that state program, hopes to hire back some workers and speed production modestly to perhaps 125 to 170 homes a month. Even that will depend a lot on Congress and the weather, but the fact that she can envision any pickup at all is a benefit of flexible block grants.

Vermont plans to divert up to 15% of money formerly used to pay heating bills for the needy, and use the money instead to permanently weatherize some of their homes. That wouldn't have been permitted by the iron rules Washington imposed previously.

Vermont also plans to economize on fuel-aid payments by cutting benefits 25% for those who heat with wood, a plentiful commodity here that state officials figure costs 60% less than oil. Further savings are envisioned by cracking down on persons applying for fuel aid retroactively. Previously, Washington required that persons applying in March be paid for the entire previous winter, which led to abuses.

Savings from these cuts, however, may never be applied to insulation if Congress yields to the President's desire for further cuts in the $1.9 billion fuel-aid program or if a severe winter forces up fuel bills.

Welfare Commissioner

Nobody knows how cuts in food stamps, welfare, Medicaid and child-care subsidies will work out for the roughly 7,000 family-aid recipients in Vermont. About 2,300 of them have jobs in addition to their welfare benefits, and an estimated 1,300 of these earn too much to continue getting welfare checks under the Reagan administration's new rules.

"In many of those cases it will be better for the mother to quit working," says David Wilson, the state's commissioner of social welfare.

For some who lose welfare, food stamps will make up part of the difference. But some will be forced to pay for child care that they now get free, because of cuts in federal social-services money. And most who lose welfare would also lose eligibility for free Medicaid insurance. "That's what they're afraid of," says Mr. Wilson. "The kid gets sick and goes to the hospital, and they're looking at a bill of a couple of thousand bucks."

Mr. Wilson plans evening counseling sessions for affected welfare mothers, to help them evaluate their shrinking choices. But he says he can't predict how many will quit working. "This stuff is incredibly complex. Four years, and I don't know it yet," he says.

Mr. Wilson fears the federal cuts will be too deep to bear. "We may have to come up with some state dollars" to fill the gap, he says.

The Governor

Gov. Richard Snelling, a Republican, says he hasn't any intention of raising state taxes to make up for lost federal aid. In fact, he intends to allow the state income tax, which is pegged at 23% of the federal income tax, to be pulled down next year by President Reagan's federal tax cut.

Tax cuts and budget cuts are necessary to revive the economy, he insists. He pleads that they be put in perspective. Focusing only on the human effect of the cuts is like asking a heart-surgery patient how he likes being sliced by the surgeon's scalpel, the governor says, echoing Mr. Reagan's own arguments.

Yet the prospect of carrying out some of Mr. Reagan's cuts clearly doesn't sit well with Gov. Snelling, for all his eagerness to be among the first to seize the new block grants. The cuts "have gone too far, too fast," he says. He complains that the President's men, chiefly Budget Director David Stockman, have engaged only in "pseudo-consultation" with governors before proposing cuts. And he says the President "gave up" on his demands for broad block grants and allowed Congress to grant very little new flexibility to states.

Indeed, before the new block-grant legislation, about 18% of all formal grants to state and local governments allowed some degree of flexibility, according to the National Governors' Association. With the new legislation, the portion increases only to 20%.

Gov. Snelling, the head of the association, says he will keep pressing Congress for more discretion. He would like to try reining in galloping Medicaid costs by paying families to take care of aged relatives in their own homes, rather than sending them to expensive nursing homes. He would also like more subsidized day care to take place in private homes, where it costs an average of 16 cents per hour per child in Vermont, rather than using day-care centers, which cost an average of $1.14 an hour. Rural mothers frequently find the centers inconvenient to reach anyway, he says.

Lt. Gov. Madeleine Kunin is a Democrat who was elected independently of Gov. Snelling and who some think could possibly be governor herself one day. She likes the budget cuts even less than Gov. Snelling and fears that other states (not Vermont) might use their new block-grant authority to shortchange their poor.

But she doesn't see serious political backlash from the cuts. "I don't think it will be lack of day care that will topple any administration . . . regrettably."

President and the Cities

Outcry Growing on 'New Federalism' Plan As the Financial Hardships Become Clear

By B. DRUMMOND AYRES Jr.

NYT 12/3/81

Special to The New York Times

DETROIT, Dec. 2 — President Reagan's plan to create a "new federalism" appears to have reached a critical juncture.

News Analysis

Over the past month, a number of the concept's strongest supporters have begun to waver and back away, voicing ever-louder cries that "new federalism," however well-intentioned, is causing unbearable financial hardships for state and local governments.

The annual three-day meeting of the National League of Cities, which ended here tonight, was a cacophony of criticism of Mr. Reagan's efforts to make good on his campaign promise to turn over Federal programs, responsibilities and power to state capitals, city halls and county councils.

Speaker after speaker complained bitterly that only responsibilities were being returned, not the monetary means to fund them. And in a closing plea, the league, urged on by key Republican conservatives and Reaganites, called for a Federal summit, to be attended by the President and leading state, city and county officials.

"There has been an escalation of concern, coupled with an erosion of support because too much has been asked of cities and other recipients of these Federal programs," Mayor William Hudnut 3d, the league's departing president, said in summary as the conference delegates began heading home.

Increasing Concern

For President Reagan, there is particular portent in the increasing concern mentioned by Mr. Hudnut, an old White House ally. Much of the Administration's early success in pushing through the "new federalism" program changes that have begun drawing so much fire was a result of the longtime inability of state and local leaders to agree on much of anything, including a common defense.

But now, with governors, state legislators, mayors and county commissioners finding themselves thrown together in the same foundering fiscal boat, a potent state-local coalition is a genuine possibility. In fact, some top state and local officials are to meet in Washington at mid-month to discuss that very subject.

Complaints about Mr. Reagan's cuts in Federal aid programs are not new, of course. They have been voiced since the day he took office. What is new is the decibel level, the intensity and, most important of all, the sudden bipartisan nature of the complaints.

When Mayor Koch flew here from New York City and delivered himself of a speech in which he labeled the President's "new federalism" and domestic programs a "sham and a shame," no one was greatly surprised. It was assumed that a Northeastern Democrat might hold such views.

Nor was anyone particularly surprised when Senator David Durenberger of Minnesota told the convention that "after the first year of the 'new federalism,' we must say to the President that the dream is going sour." Mr. Durenberger, a moderate-to-liberal Republican, has been goading the President for some time.

Surprising Criticism

But when Gov. Richard A. Snelling of Vermont told the league convention that he had been "shocked to the core" by some of Mr. Reagan's "new federalism" approaches, when he warned that "new federalism" was leading the country toward "an economic Bay of Pigs," when he endorsed the idea of a federalism summit — then convention-goers sucked in their breaths in surprise. Mr. Snelling is a conservative, Reaganite Republican, and what is more, he is president of the influential National Governors Association.

Is the President getting the message? The reading on that is mixed.

Despite numerous entreaties by league officials, the President would not come to the Detroit meeting. Further, the Administration sent no Cabinet-level officials other than William E. Brock 3d, United States Trade Representative, a choice that particularly puzzled 2,500 convention-goers concerned almost exclusively with domestic matters.

On the other hand, the President has scheduled a meeting Thursday at the White House with 200 city and county leaders to continue what Administration officials describe as a "running dialogue" with a cross-section of state and local officials, more than 1,200 of them to date.

The President himself said in an interview two weeks ago that centered on "new federalism" that he was concerned about the increasing "pain" of the cuts in aid to states and localities. But he vowed to continue the reductions, asserting that they were one of the keys to bringing down inflation, stabilizing the economy and reordering federalism.

Perception of Confusion

If the discussions heard at the meeting in Detroit were a reliable indicator, the interview increased, rather than allayed, doubts about Mr. Reagan's intentions and goals. Some conference participants said Mr. Reagan's perceptions of federalism seemed confused and contradictory while other conference-goers found them "over-simplified," to use Mayor Hudnut's phrase.

The conference here also brought into the open just how frustrated state and local officials have become over the Administration's refusal to make significant cuts in military spending.

Governors, mayors and county commissioners have been reticent in the past when it came to speaking out against military expenditures, usually pleading ignorance about what was needed to protect the nation. But much of that reticence seems to have disappeared as the fiscal squeeze has become tighter and tighter.

"The nub of our argument is simple," Mayor Hudnut said this afternoon. "Two-thirds of the cuts made in the budget so far have come from the 15 percent of the budget that contains money for states and localities. We're being asked to do more than our share."

WASH POST 7/14/81

The Governors Will Fight

By Bruce Babbitt

The nation's governors are quietly sitting on the sidelines as the president and the Congress repeal the Great Society and remake the federal system. The reason for this bench-sitting diffidence is not hard to discern; the president has simply outwitted the governors at their own game of block grants.

The governors have traditionally been strong advocates of block grants. They have long dreamed of a block grant program that would give the states the best of both worlds, creating an inter-governmental candy store in which the Congress supplied the goods and allowed the states to hand them out to grateful recipients.

President Reagan has suddenly changed the game by using block grants for a very different purpose: to close up the candy store. Block grants are now a tactical weapon to cut the federal budgets while deputizing the governors to hand out the bad news. The administration candidly admits that this year's 25 percent block grant reductions are merely the entering wedge in a scheme to shrink and then eliminate federal support for many of the social service programs included in the blocks.

With this change of direction, the enthusiasm in the state capitols has given way to ambivalence and a sense of miscalculation. The immediate effect will be more pressure on state and local budgets. Nonetheless, many of us believe the federal government ought to withdraw from some areas of primary state and local responsibility and have supported the president even as he reshapes the block grant as a tool for phasing out federal programs of social services, education, health services and community development.

Perspectives

However, even the advocates now fear that the president is going too far.

To date, the president has set no discernible limits to his agenda for closing down the federal government and handing programs back to the states. His strong opinions about state responsibility are not balanced by any thoughts about federal responsibility. We are beginning to sense the president has no philosophy about federalism. If he believes the federal government has any role beyond raising armies and minting coinage, we have yet to hear what it is.

Most governors believe that the sorting out of governmental responsibilities is a two-way street. And they are on record advocating that individual income security programs, such as welfare and Medicaid, ought to be at the core of national program responsibility. Whether as a nation we spend more or less money on welfare is not the central issue in this context; the basic point is that decisions about the size and scope of entitlement programs ought to be made by national government on an uniform, nationwide basis. Welfare and Medicaid are as much a part of the national "safety net" as Social Security, a program that even President Reagan does not propose to turn over to the states.

The president has made known his intention to abdicate federal responsibility and to dump welfare and Medicaid programs onto the states. Perhaps sensing the potential for widespread opposition, he has wisely delayed welfare and Medicaid block grant proposals until next year. If and when such proposals are advanced, the governors will not be sitting on the bench. They will be on the field, ready to fight for a federal system of logically divided program responsiblities.

The writer, a Democrat, is the governor of Arizona.

CHARLES ROYER

Can States Handle Role Reagan Is Giving Them?

President Reagan's "New Beginning" is not just a program for the nation's economic recovery. It is a major redistribution of governmental responsibility at every level.

The president proposes to take the federal government off our backs, and out of our cities, by shifting responsibility for many of our domestic problems to the 50 state capitals. State governments are now being invited, against their not-so-muted protests, to assume major new responsibilities for domestic decision making and problem solving.

And some governors are beginning to wonder whether, either politically or fiscally, they can afford this long sought, philosophically pure notion of state control.

The question that concerns me, as mayor of a large city, is whether the states can handle their new role. Most important, what will be the impact on cities within states which are politically, institutionally, and financially ill-equipped to assume added responsibilities of the magnitude contemplated in President Reagan's recovery program?

Broad Policy Shift

Federal policy changes are proposed for a wide range of activities, including health, social services, income security, housing and public transportation, all areas in which the federal government traditionally has played a major role or in recent years has assumed a dominant position. Now the federal government is telling state governments it will no longer provide the same level of federal support for many of these activities. In some cases, states will be given federal funds, at a reduced level, to administer certain programs. In others, states will have to scrape up all the funding for services people want continued.

While there are several states capable of assuming all or a substantial part of these programs, there are more just waiting helplessly for the tidal wave of chaos, as delegated responsibility rolls inexorably outward from Washington, D. C.

One can understand how President Reagan came to conclude that some federal responsibilities might be shifted to the state capitals. He received his education in federalism during eight years at the head of perhaps the most sophisticated state government in the country. The state of California is one of the largest governments in the world. California has a full-time state legislature. California has the full administrative, financial, and analytical capabilities to deal with complex social and urban problems. California has institutional and political arrangements which can respond effectively to challenges posed by the administration's new federalism.

But, for better or worse, the rest of the country is not California. In fact, the rest of the country is more like Georgia. And we all know who went to political school in Georgia.

Like Reagan, Jimmy Carter learned his federalism as governor. But he learned it in a less-than-sophisticated institution. Carter's urban policy, which attempted to recognize reality by institutionalizing a practical relationship between the federal government and City Hall, was in part driven by Carter's knowledge of state government's limits. Jimmy Carter, though states-rights blood courses through his Southern veins, could not, in conscience, cede certain federal responsibilities to the state capitals. He knew most of them could not or would not do the job.

Part-Time Legislatures

Many states have part-time legislatures which meet for a few months, every year or two. Our state legislature is now a cross between a full-time government made necessary by reality and a part-time citizen legislature created by the founding fathers in the 19th century.

The state capitals, for the most part, are not in major cities. They are located in small cities and towns where state bureaucrats are not burdened with – and consequently are unfamiliar with – the special problems of a large city. Large cities, generally characterized by their complex transportation, physical and environmental problems as well as their mixed racial and ethnic composition, could not be more unlike the tranquil capital cities.

Before we pass new responsibility on to the states, it is useful to consider why the federal government developed a direct relationship with cities in the first place. Was it to fill a vacuum left by rural and suburban dominated state governments? Most mayors tell me they can get a more sensitive reception from a U.S. congressman representing a rural district. I remember attending a hearing in our capital at which one state senator, from a town of less than 500 people, was discussing the funding of public transit. He told the committee, which he chaired, that his town did not have and would never have the need for a bus, and he could see no reason why state government should assist urban transit systems.

Large cities simply have not been the primary focus of state government problem-solving, which is one reason why the federal government got involved in the first place.

Categorical Assistance

While there are always points of difference between larger cities and their state legislatures and governors, it appears some problems are peculiar to certain states, such as Washington, Colorado, Illinois, and Georgia, where there is only one large city in the state. In these states, the larger cities have benefited from federal categorical assistance, which often is designed to help deal with a specific problem in that city.

For example, in Seattle, the federal government, through the Department of Health and Human Services, provides assistance for an urban Indian health program. Seattle has a large population of Native Americans and receives the vast majority of Title 5 funds in the state to provide health services to this population. Since this program is not a statewide concern or a statewide problem, state government would hardly be eager to pick up the tab if federal funds cease.

When you ask state officials what is important in the state plan, you hear about statewide priorities. "We cannot get by our legislature programs that only serve one city," is a frequent response. "We must serve statewide problems with a statewide constituency." If cuts are being made, one can readily see what happens to an urban constituency or problem in some states.

The problem posed by this example is just one of hundreds that will emerge as the new administration moves us toward block grants in several major areas. Eight separate state block grant proposals are already under consideration.

Block grants per se are certainly not undesirable. Much can be gained from the flexibility and the program coordination which is possible under this approach. But Congress should not adopt the proposed changes without providing strong guarantees and protections for large cities and their citizens, so that they are not affected disproportionately in the process.

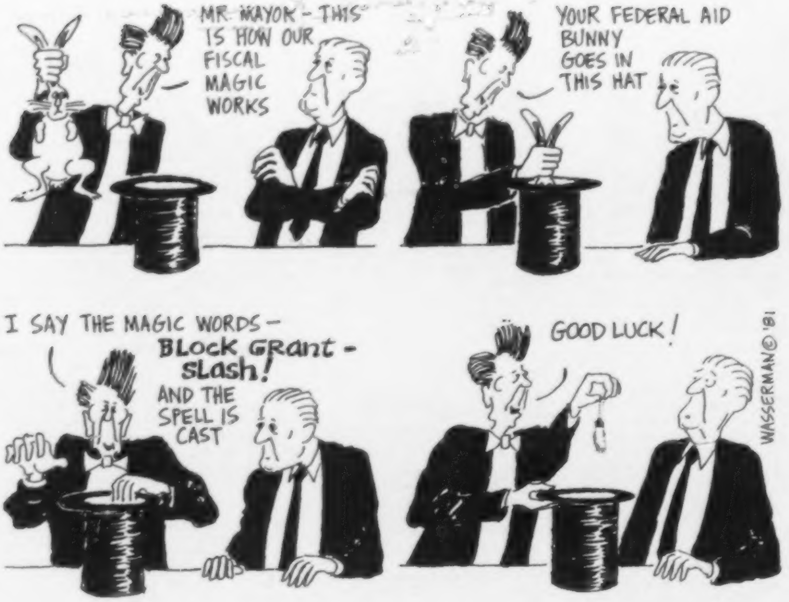
Hasty Change Unwise

Changes should not be made in haste – solely for the sake of change – or as a temporary camouflage for substantial funding reductions. If we move too quickly, we may find ourselves reliving the painful urban experiences of the past.

I personally believe that many of our state capitals are not ready for the political and fiscal hand grenade being tossed to them by the president.

It will be our large cities and their residents, not the state governments, that will be devastated if this transfer of responsibility to the states is handled thoughtlessly or in haste.

Charles Royer is the mayor of Seattle, Washington.


MR MAYOR - THIS IS HOW OUR FISCAL MAGIC WORKS
YOUR FEDERAL AID BUNNY GOES IN THIS HAT
I SAY THE MAGIC WORDS - BLOCK GRANT - SLASH! AND THE SPELL IS CAST
GOOD LUCK!
WASSERMAN © '81

The Food Stamp Dilemma

States Are Not Capable Of Handling Distribution

WASH POST 2/18/82

By Dr. Jean Mayer

THE REAGAN administration's proposal to transfer responsibility for food-stamp payments to the states is a serious mistake. With the cutbacks in other federal feeding programs, it could well lay the groundwork for a return to the disastrous situation of the 1960s, when 20 to 30 million Americans did not have enough money to buy a minimally adequate diet for themselves and their families.

In 1967, a medical team sent by the Field Foundation found areas of hunger and malnutrition in every part of the nation, rural and urban alike, and in every ethnic group. The worst cases were those who are always the most vulnerable: infants and young children, pregnant and nursing women, the elderly. Following that and similar findings of a 10-state nutrition survey, the White House Conference on Food, Nutrition and Health in 1969 recommended an expansion of America's large-scale nutrition programs.

Commentary

Over the next three years, these programs raised the number of food-stamp recipients from 500,000 to 12 million and eventually to over 16 million. In 1977, another Field Foundation team, which included many of the same physicians who participated in the original study, retraced their steps. While in many areas (such as Appalachia) the facts of poverty had not changed, they found no medically demonstrable cases of malnutrition. In their findings, the doctors ascribed this elimination of malnutrition to the federal food programs.

Food stamps, in particular, have proven to be our prime bulwark against the hunger due to poverty. It is the program needy people depend on for three meals a day. Now, President Reagan would turn the program over to the states.

Despite all the insults heaped on it in the last few years, the federal government is much better equipped to deal with such massive, complex programs as food stamps than are most state governments. Very few have the strict financial procedures, the computerized record-keeping and the trained civil service needed to administer the program effectively.

By contrast, there is general agreement that the Department of Agriculture has been doing a very good job of managing the program equitably and efficiently. Although there have been charges of laxity and abuse — and some can be substantiated — the fact is that less than 5 percent of total spending goes to ineligible recipients or is over-issued. The rate of fraud is much lower than with income-tax returns. Incidentally, the major frauds generally have been perpetrated not by poor recipients, but by crooked caseworkers in collusion with disreputable retailers and hard-core criminals. This record of abuse could be improved, but not by fragmenting the program.

Overall, the states are the weakest link in our system of government. There is far more corruption, waste and favoritism at the "grass-roots" level than in the federal establishment. While the fact that something did not work in the past does not necessarily mean that it will not work in the future, we do not want to find ourselves once again in the situation where, as in the 1960s, eligibility for assistance might depend upon whom you know and even, in some cases, whether or not you are willing to wash the sheriff's floor.

It is by no means certain that the poor would receive equal protection under the law in every state. In the last 10 years, only two states increased welfare benefits enough to keep up with inflation.

The transfer of funding and administration raises the specter of bewildering, discouraging and expensive labyrinths of federal and local regulations for the different programs. It could well lead to a disparity in benefit levels like the ones that spawned the migrations from the South and from Puerto Rico after World War II and created the urban ghettos — and riots — in New York, Washington and Los Angeles in the 1960s.

The most cogent reason to keep food stamps in the federal government is the nature of the program and the inability of the individual states, no matter how competent or willing, to assume the burden. Food stamps are basically an income supplement — targeted specifically to food — in an effort to ensure every American the ability to purchase an adequate diet during periods of economic distress.

The program has functioned well. For example, during the recession of 1973-74 the number of people on food stamps rose from 16 to 19 million, then fell back to 17 million with the recovery. As the present recession has deepened, the number has risen once again, this time to over 21 million.

Thus, in contrast to the costs of programs like Medicaid, which will rise predictably with escalations in the costs of health care, the cost of the food stamp program fluctuates with the health of the national economy.

Unlike the federal government, the states cannot maintain an operating deficit. Throwing the food-stamp program and the cost of its administration back to the states will mean that Michigan, for example, will face the highest cost at the very time when it is least able to pay for it. Unemployment there is running at 14.4 percent, well above the national average; tax revenues have dropped. Because there is relatively little federal spending in the Great Lakes region, Michigan gets back only 76 cents on every dollar sent to Washington.

Thus far, the food stamp program has been protected from such disparities. It is a national answer to a national need. It works. The middle of a recession that features high unemployment is not time to "fix" it.

Dr. Jean Mayer, who organized and chaired the White House Conference on Food, Nutrition and Health, is a nationally syndicated health columnist.

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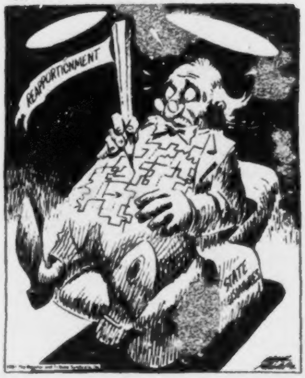
David S. Broder

WASH POST 2/17/82

The States Drop the Ball



By Frank Miller

Ever since President Reagan made his federalism initiative the centerpiece of his State of the Union address, a new topic has been added to the agenda of the political hot-stove league: can you trust the states to meet their responsibilities if you give them the programs Reagan wants them to run?

I like the affirmative in that debate, in part because it is the unfashionable minority view among the Washington-oriented journalists, politicians and bureaucrats with whom I spend my time. They look with suspicion, if not contempt, on lesser breeds outside the Beltway.

The other reason for taking the affirmative on state responsibility is less frivolous. Over the years I have traveled the political beat, I think there has been a steady and, at times, dramatic improvement in the competence and character of state government.

But recently, I have gone through a reporting experience that has made me wonder about that impression. With Washington Post researcher Maralee Schwartz, I did a detailed review of the way the states have been handling one of their more serious constitutional responsibilities: redrawing the lines for the congressional districts to reflect the population changes in the 1980 census.

The picture that emerges is not an ennobling one. It is, instead, a performance that hands ammunition to those who would argue that you better keep a federal hand on the controls of government, because you can't trust the states.

It is, perhaps, an unfair example, because nothing else in government is so crassly political—so subject to logrolling, horse-trading and manipulation—as the process of drawing district lines.

Still, it is 20 years since the Supreme Court, in its first affirmation of the principle of one-person, one-vote, compelled the Tennessee legislature to redraw its grossly malapportioned districts. And the "reapportionment revolution" is cited by Reagan and a lot of us lesser federalism freaks as one major reason why state government is now ready for new responsibilities.

The first thing we found was that the states are being almost casually laggard about their responsibilities. As of last weekend, with all of 1981 past and the campaign year of 1982 six weeks old, only 174 of the 435 members of the House of Representatives knew what the lines would be for their spring and summer primaries and the general election in November.

The first two primary states—Illinois and Texas—both had to extend their filing deadlines, because the districts were not set. Others face the same threat as partisan bickering delays their decisions.

The record of the state governments is actually worse than the naked numbers suggest. About one-quarter of the state legislatures have not passed a plan. Another quarter have their plans under challenge or have had them rejected by their governors or the courts.

Of the 27 states where lines are set for 1982, six have only a single at-large representative and two—Maine and Montana—have simply postponed the process until next year. California's 1982 lines won a temporary okay from the state Supreme Court, but may have to be redrawn for 1984 and later years.

Take away the 55 seats in those nine states, and you find that only 115 district lines have really been drawn for the 1980s. And almost one-third of them—those in Colorado, Illinois and Missouri—were drawn by federal courts, after the legislatures and governors were unable to agree on any plan.

The whole process has been marked by the naked application of political muscle: vetoes and threats of vetoes, retribution against mavericks and, of course, some wonderfully creative partisan gerrymandering.

The claim that the legislatures are sensitive to the interest or needs of the powerless—whether those minorities are political or racial—is hard to prove from the redistricting record. It is the courts that have been protective of center-city black representatives, particularly in Illinois and Missouri.

The Justice Department rejected the first North Carolina plan for drawing a fishhook around Durham County, where blacks have significant voting strength, in order to accommodate a nervous congressional incumbent. It sent the Texas plan back because it diluted Hispanic voting strength in the Rio Grande Valley, and it blocked the Georgia plan for diminishing black voting strength.

Black organizations have complained that the districting plans passed in Alabama, Louisiana and Mississippi will reduce the chances of electing any black congressmen from those states in the 1980s. The Georgia plan was rejected last week by the Justice Department for diminishing black influence, and the other three are still under scrutiny.

The same Arkansas legislature that passed the law mandating the teaching of "creationism" (recently overturned in court as a violation of the "establishment" clause of the Constitution) also passed a districting plan that the federal court threw out for failing to meet the 20-year-old population-equality standards. It leads you to suspect that whereas the Arkansas legislature cannot read the Constitution, neither can it count in thousands.

Come on, folks. You're making it tough to take federalism seriously.

States Unable or Unwilling to Shoulder 'Federalism' Burden

By Jay Mathews
Washington Post Staff Writer

LOS ANGELES—To John Vasconcellos the stocky, mustachioed chairman of the California Assembly's Ways and Means Committee, Ronald Reagan's "New Federalism" has come at the worst possible time. The state is short $2 billion for next year and its creative budgeteers are running out of tricks.

The Reagan plan to transfer federal programs to the states has a "nice appeal to local home rule and self determination," said Vasconcellos, a Democrat from Santa Clara County, but "we are in the red, on the verge of bankruptcy, and there's nothing we could pick up."

Across the country, in nine scattered states with varied economies surveyed by The Washington Post, the New Federalism has produced only a few scattered cheers in state legislatures, and a lot of moans and sharp words.

To them, New Federalism means no weekend bus service in Los Angeles, an end to federal benefits for 9,000 Asian refugees in Washington, and no Amtrak service between Duluth and Minneapolis-St. Paul.

In the most economically crippled states, legislators can see only two unhappy outcomes from the president's plan to transfer programs like welfare and food stamps to the states: higher taxes or sharper cuts in state services. Despite their past philosophical support for moving government closer to the people, statehouse lawmakers heading into an election year find that a chilling prospect now.

"We don't have enough money to live up to the state's responsibility, let alone step in where the federal government has pulled out," said Harry Steben, a Democrat and Minnesota's speaker of the House. "What we're facing is an anti-government movement, not a pick-up, or even a do-as-much-as-you-did-before movement."

That is not a prospect that bothers the Republican majority leader of Colorado's Senate, Fred Anderson. "A lot of these programs we will have the option of picking up or letting go. I think that's a good deal for us," said Anderson, whose state has low unemployment and relatively few recent deficit problems. "The whole system was overloaded to the federal side. There was so much paperwork it almost wasn't worthwhile."

How much Reagan's scheme will alter the shifting scenery of local politics in a key election year seems to depend on how shaky the local economy is and how deep the deficits are in each state.

In Washington State, where unemployment is now higher than it was during the Great Depression, Democratic state Sen. James McDermott, the party's unsuccessful candidate for governor in 1980, said of the Reagan cuts: "Killing the economy is the most difficult cut to absorb. We don't have a tax structure to deal with it. We don't have an economy left."

Charles Royer, the Democratic mayor of Seattle, said he figures federal programs turned over to the states will cost $75 billion by 1991, with only $13 billion in revenues to pay for them, "leaving a little matter of $62 billion annually for the local governments to puzzle over."

In New Jersey, facing an estimated loss of $700 million in federal aid because of the Reagan program, even newly elected Republican Gov. Thomas H. Kean is worrying publicly about what it will do to his state and party. "The human impact of this budget is severe and it disturbs me greatly," he said.

State legislators and administrators say the lack of hard information about the Reagan program, which the president has said must be worked out over several years, adds to their sense of unease.

"The whole idea is such a blue-sky pipe dream we haven't really tried to do anything with it yet," said California's Vasconcellas. "The style seems to be to do something with so little detail that no one can really tell what it means."

Kentucky's Democratic Gov. John Y. Brown Jr. has been deluged with suggestions for more revenue, such as an increased tax on mined coal or a new tax on unmined minerals, but he said, "I'm hesitant to push the panic button." He told the state chamber of commerce he preferred not to deal with Reagan's proposals in this legislative session, waiting to call a special session after the dimensions of the Reagan cuts, as amended by Congress, are known.

In New Jersey, state administrators were hit with questions about the new Reagan cuts only days after taking office in Kean's new administration. The new environmental commissioner, Robert Hughey, said "it's just unacceptable to think that we would reduce" air and coastal protection programs threatened by federal cuts, but he acknowledged being too new in his job to know just how much his programs might lose.

Democratic Sen. Don Kilpatrick, vice chairman of Oklahoma's Senate Appropriations Committee, said "we're getting conflicting stories" from Washington. And Oklahoma state Rep. Clete Deatherage said, "We have no information for '83 and a shortage of information for '82. We can't appropriate money when we don't know how much we're going to lose."

Several large ripples are washing over the states from the budgetary rocks dropped into Congress by the president. They cross and recross in ways that confuse debates in state legislatures and in news accounts of the process.

First came a series of cuts in federally funded programs such as job training and welfare for the working poor, which already have forced states to cut services even as the weakened economy has lowered their tax revenues and cut their ability to save some programs with their own funds.

Next come more budget cuts for 1983, forcing states to find their own funds if they are to keep spending at previous levels on programs such as Medicare, Medicaid, food stamps, job training, welfare and education.

Finally comes the president's "New Federalism" proposal to swap major programs with the states. States would pick up food stamps and Aid to Families with Dependent Children, while the federal government would take over full responsibility for Medicaid health care. Several other programs—including non-interstate highways, mass transit, sewage treatment, day care centers, community development, downtown renewal and general education—would be turned over to the states, to be financed with a federalism trust fund from federal excise taxes and part of the oil windfall profits tax.

In the states with the worst economic problems, such as Washington, none of this appears to help much. Last fall Washington was five days from bankruptcy when Republican Gov. John Spellman borrowed $400 million from a group of New York banks to pay state bills. The state had lost $382.5 million in federal funds, mostly for transportation and public employment. In November, the state legislature reluctantly raised the sales tax one cent to pay back the loans.

Now Washington lawmakers have discovered the state will have a $226 million deficit by October. Because states, unlike the federal government, cannot incur permanent debts to pay their deficits, Spellman has proposed filling the gap by raising state college tuition (already increased 70 percent last year), extending the sales tax to gasoline, and requiring large industries to turn in sales tax receipts early for a one-time gain of $95 million.

In Oklahoma, fat with oil and gas revenues and enjoying the lowest unemployment rate in the country (3.9 percent in December), the situation could not be more different. Last year the state legislature had a $326 million surplus. During Democratic Gov. George P. Nigh's three years in office there have been 16 tax cuts.

Oklahoma officials estimate they will lose $40 million in federal funds in fiscal 1982, much less than earlier estimated, and perhaps $50 million in fiscal 1983. George Humphreys, director of the House fiscal division, said cuts in the state budget last year "weren't all that substantial." The Human Services Department shifted funds from unappropriated accounts, but also ordered an increase in the price of school lunches to make up for federal cuts.

Despite their relative economic strength, the moderate to conservative Democrats who control the Oklahoma legislature are not eager to rush into programs the Reagan administration has abandoned.

"We can afford to pick up all the cuts," Humphreys said, "but I don't think anybody wants to. For example, there are programs like CETA [public service jobs provided under the Comprehensive Employment Training Act] that the legislature is not committed to."

Deatherage, who chairs the House Appropriations Committee, said her legislative colleagues are inclined to think "if the feds aren't going to fund it then we shouldn't fund it either."

If one of the nation's wealthiest states takes that attitude, there appears little chance that less-endowed legislatures will pick up federal programs abandoned by Washington. State lawmakers report few innovative proposals to make up for the loss of federal services. Only programs that receive some of the federalism trust fund money—which may be less than expected—appear to have a chance of continuing.

Neither do large corporations seem very concerned so far that state legislatures might restore corporate taxes or expensive regulations that have been cut by the federal government. An expected increase in corporate lobbying staffs in state capitals to forestall such a development has so far not occurred.

Many Democrats decry the decline of services, but Republicans say voters have clearly expressed their desire to make do with fewer services in exchange for paying less taxes.

"By electing Ronald Reagan to the presidency, the voters have already given their mandate—less government and lower taxes," said California state Sen. William Campbell, the Republican minority leader. "If the state carries out the voter mandate, the voters will praise the state."

To eliminate a projected $2 billion deficit for fiscal 1983, California Gov. Edmund G. Brown Jr. and his advisers have projected cuts of about $1.4 billion and proposed a series of complex revenue gymnastics which would raise more than $600 million. These include accelerated collection of taxes on income, insurance and sales, increased interest on delinquent taxes and a change in the way taxes on oil companies are computed.

Some Sacramento veterans said they were reminded of the days when Brown's father was governor; he was known as a master of accelerating collections in order to forestall general tax increases. The idea is to avoid voting for a tax rise in a year when most legislators are running for reelection and Brown is running for the U.S. Senate.

Eventually, California officials say, new taxes will be necessary. Also, the deficit in California as in many other states will be much greater if the national economy does not rebound later this year as Reagan has predicted—and as, ironically, anti-Reagan Democrats like Brown have assumed in their own budget projections.

In states such as California, which still have relatively healthy economies, a series of comparatively small budget adjustments are being proposed to handle the current deficits, with the threat of much larger revenue gaps from the New Federalism left for another day.

In Colorado, Democratic Gov. Richard D. Lamm said the Reagan plan to transfer more than 40 grant programs to the states would put Colorado $120 million in the hole in 1984. For now, however, the state is grappling with a mere $12 million deficit for fiscal 1982.

Some Colorado officials have suggested delaying capital expenditures and limiting the growth of some programs to avoid that deficit. The legislature also is considering raising the state's 3 percent sales tax and increasing auto registration and other fees.

Arizonans, whose economic problems are similarly small, greeted the new Reagan proposal with some enthusiasm. Bruce Babbitt noted proudly that he was the Democratic governor Reagan quoted as saying "the national government should be worrying about arms control, not potholes," but he added that he would prefer that all entitlement programs and not just Medicaid become a federal responsibility.

Arizona had a record fiscal year-end surplus of $234 million in mid-1980, but a deficit of $143 million is projected for 1983. Babbitt has proposed a procedure similar to the California revenue-juggling, in which businesses would remit state income tax withholding payments monthly instead of quarterly to bring in an additional $47.4 million before the end of this fiscal year. Increases in excise taxes on liquor and tobacco, and an increase in some state fees, also have been discussed.

In Missouri, Republican Gov. Christopher S. (Kit) Bond welcomed the chance to administer federal food stamp and welfare programs "so long as we are provided with equitable funding."

The state's budget is in some disarray, however, because of the failed economy and federal cuts. Bond's government is $100 million in arrears in aid to schools, forcing some districts to borrow to pay teachers.

A proposal to raise the gasoline tax from seven to 11 cents a gallon received initial approval in the state's House of Representatives, but only after an amendment was added putting the issue on the ballot for voters to decide.

The Democratic House speaker, Bob Griffin, has proposed a complex tax package, including a graduated corporate income tax, new sales taxes on cable television, beauty and barber shops, laundry and shoe repair and radio, television and furniture repair. He also wants to increase taxes on cigarettes and liquor, and raise some state fees, but most legislators consider the package doomed because of the governor's opposition to any tax increase and because most legislators are up for reelection this year.

In states with much more severe economic problems, such as Minnesota, tax increases seem more likely. The Democratic-controlled legislature in Minnesota passed a package of tax increases and spending cuts last month to erase a record $778 million deficit. But before they initiate further cuts or new taxes, they want to see a new revenue forecast from Republican Gov. Al Quie, whose revenue-projection blunders in the past helped lead to his announcement that he will not seek reelection.

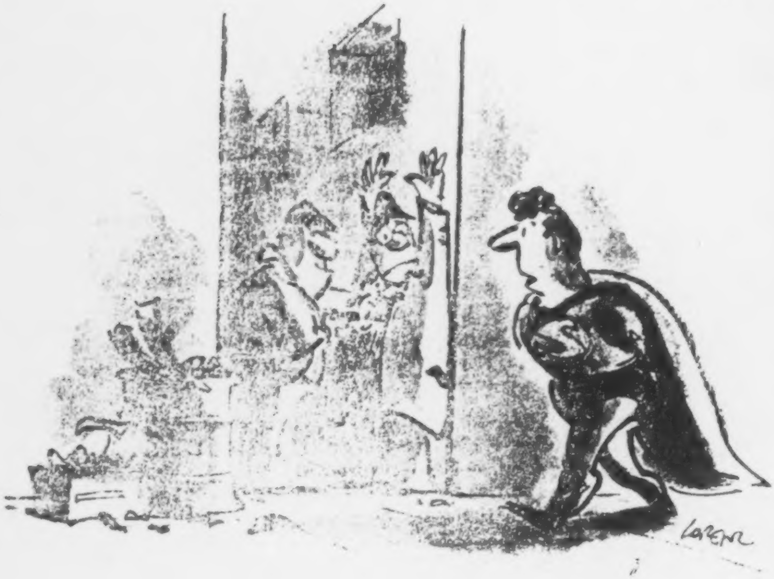
Minnesota officials, however, including Senate majority leader Roger Moe, have estimated that Minnesota would gain under the proposed Reagan swap of Medicaid for food stamps and welfare, because it spends more on Medicaid than it does on the two welfare programs.

In Oklahoma, that swap looks to Democratic State Sen. Finus Smith like one of the most astute political moves in a long time. "If you are going to cut entitlement programs, why not turn them over to the states and let them cut them? Then they will get the blame," Smith said.

But Oklahoma's strong economy and great potential for tax increases should cushion any blows.

"We argue here about how we are going to spend the money," said Dian Copelin, assistant press secretary to Gov. Nigh, "not about whether we are going to have it to spend."

The New Yorker 5/18



"Sorry, but all my power's been turned back to the states."

Appendix A

New Federalism: Every State a Loser

The following charts, prepared by The American Federation of State, County and Municipal Employees, show the net loss for each state that would result from the President's "Turnback" and "Swap" proposals.

PRESIDENT REAGAN'S NEW FEDERALISM: EVERY STATE A LOSER

(Figures in Millions of Dollars in FY 1984)

	– TURNBACK PROGRAM –			– SWAP PROGRAM –			Total
	Trust fund allocation [1]	Turnback programs[2]	Net difference[3]	Medicaid savings[4]	Public assistance cost[5]	Net difference[6]	Cost to States in FY '84 [7]
Ala.	$ 713	$ 725	$ –12	$ 140	$ 431	$ –291	$ –303
Alaska	188	239	–51	32	65	–33	–84
Ariz.	463	441	22	0	194	–194	–172
Ark.	345	441	–96	137	215	–78	–174
Calif.	2,144	3,804	–1,660	2,524	2,503	21	–1,639
Colo.	331	516	–185	161	165	–4	–189
Conn.	283	562	–279	277	208	69	–210
Del.	107	152	–45	38	49	–11	–56
D.C.	333	562	–229	141	104	37	–192
Fla.	1,433	1,661	–228	348	774	–426	–654
Ga.	819	972	–153	285	531	–246	–399
Hawaii	145	192	–47	94	130	–36	–83
Idaho	151	189	–38	31	63	–32	–70
Ill.	1,547	2,257	–710	857	1,033	–176	–886
Ind.	552	882	–330	336	339	–3	–333
Iowa	330	513	–183	166	173	–7	–190
Kan.	225	392	–167	141	116	–27	–140
Ky.	690	734	–44	186	453	–281	–325
La.	634	813	–179	309	467	–158	–337
Ma.	240	316	–76	81	126	–45	–121
Md.	507	816	–309	342	349	–7	–316
Mass.	732	1,417	–685	669	515	154	–531
Mich.	1,147	1,710	–563	914	1,078	–164	–727
Minn.	236	771	–535	501	249	252	–283
Miss.	563	546	17	109	361	–252	–235
Mo.	700	1,940	–240	247	365	–118	–358
Mont.	128	190	–62	43	48	–5	–67
Neb.	185	291	–106	77	74	3	–103
Nev.	58	140	–82	70	37	33	–49
N.H.	110	182	–72	57	49	8	–64
N.J.	907	1,497	–590	557	525	32	–558
N.M.	251	271	–20	57	148	–91	–111
N.Y.	789	4,496	–3,707	4,002	2,063	1,939	–1,768
N.C.	820	1,041	–221	277	462	–185	–406
N.D.	83	154	–71	45	25	20	–51
Ohio	1,406	1,925	–519	744	1,005	–261	–780
Okla.	249	479	–230	228	180	48	–182
Ore.	393	513	–120	128	203	–75	–195
Pa.	1,658	2,523	–865	967	1,079	–112	–977
R.I.	124	203	–79	95	96	–1	–80
S.C.	553	575	–22	128	348	–220	–242
S.D.	124	177	–53	32	41	–9	–62
Tenn.	702	818	–116	267	494	–227	–343
Tex.	1,352	2,102	–750	833	895	–62	–812
Utah	182	264	–82	61	74	–13	–95
Vt.	118	140	–22	32	65	–33	–55
Va.	617	835	–218	250	355	–105	–323
Wash.	493	724	–232	248	296	–48	–280
W.Va.	429	487	–58	65	192	–127	–185
Wis.	235	825	–590	633	365	268	–322
Wyo.	75	111	–36	17	17	0	–36
TOTAL	$27,600	$43,538	$–15,938	$18,976	$20,200	$.–1,225	$–17,151

NOTES ON THE AFSCME "NEW FEDERALISM" TABLE

This table shows that President Reagan's New Federalism would cost states over $17 billion in FY84. It corrects inconsistencies and mistaken assumptions made in a similar table published by the White House which purports to show that the Reagan program is a "wash" for states in fiscal year 1984.

1. **This column reflects White House estimates of the revenue that states will receive from the new "Federalism Trust Fund" to be set up under President Reagan's proposal.**

2. **White House state-by-state estimates adjusted upwards by 44.2% to reflect the true FY 84 cost to the states of maintaining FY82 levels of service under the turnback programs.** The New York State Washington office has reported that the turnback programs cost $37.5 billion in FY82. Adjusting for inflation based on the latest economic forecast by DRI (CPI increase = 7.8% in FY83 and 7.7% in FY84) gives a FY 84 current service cost of $43.538 billion. $43.538 billion is 44.2% greater than the White House cost assumption of $30.194 billion.

3. **After adjustments, the net difference between the turnback program costs and the trust fund allocations are considerably larger than the White House projects.**

4. **OMB estimates of the state cost savings from federalization of Medicaid.** (The original White House version of the chart is internally inconsistent in that its cost estimates for the turnback, AFDC & Food Stamp programs assume enactment of the Administration's further cuts in FY83 while its Medicaid estimates ignore these cuts. AFSCME's chart corrects this error by stating all figures on a consistent current-services basis.)

5. **White House state-by-state estimates adjusted upwards by 23.3% to reflect the true FY84 cost to the states of maintaining FY 82 levels of service under the AFDC and Food Stamp programs.** The Administration's cost figure of $16.382 billion understates this cost because it assumes enactment of new FY 83 Administration cuts in these programs. OMB reports that without these cuts (that is on an FY82 current services basis) these programs would cost the states $20.200 billion in FY84.

6. **Again, after corrections, the net effect of the swap program is much more unfavorable to the states than the White House suggests.**

7. **The real total costs to the states in FY84 is shown in the last column. Far from being "held harmless" by New Federalism, the states will be faced with a loss of over $17 billion in federal aid in the first year of the Reagan program.** Moreover, every state in the nation will be a loser.

AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, AFL-CIO

STATE TAX HIKES NECESSITATED BY THE NEW FEDERALISM

STATE	TOTAL COST OF NEW FEDERALISM TO STATES FY 84 (in millions $) [1]	ESTIMATE OF STATE TAX COLLECTIONS FY 84 (in millions $) [2]	% INCREASE IN STATE TAXES REQUIRED [3]
Alabama	$ 303	$ 2,878	10.53%
Alaska	84	3,105	2.71
Arizona	172	2,393	7.19
Arkansas	174	1,593	10.92
California	1,639	27,477	5.96
Colorado	189	1,938	9.76
Connecticut	210	2,776	7.56
Delaware	56	744	7.53
D.C.	192	1,516	12.66
Florida	654	7,121	9.18
Georgia	399	4,067	9.81
Hawaii	83	1,458	5.69
Idaho	70	720	9.72
Illinois	886	9,813	9.03
Indiana	333	3,764	8.85
Iowa	190	2,460	7.72
Kansas	140	1,865	7.51
Kentucky	325	3,050	10.65
Louisiana	337	3,759	8.96
Maine	121	903	13.40
Maryland	316	3,961	7.98
Massachusetts	531	5,810	9.14
Michigan	727	8,277	8.78
Minnesota	283	4,521	6.26
Mississippi	235	1,872	12.55
Missouri	358	2,872	12.46
Montana	67	626	10.70
Nebraska	103	1,077	9.56
Nevada	49	690	7.10
New Hampshire	64	360	17.78
New Jersey	558	6,739	8.28
New Mexico	111	1,580	7.02
New York	1,768	18,650	9.48
North Carolina	406	4,573	8.88
North Dakota	51	604	8.44
Ohio	780	7,023	11.11
Oklahoma	182	2,991	6.08
Oregon	195	2,155	9.05
Pennsylvania	977	10,180	9.60
Rhode Island	80	815	9.82
South Carolina	242	2,447	9.89
South Dakota	62	399	15.54
Tennessee	343	2,624	13.07
Texas	812	10,953	7.41
Utah	95	1,138	8.35
Vermont	55	394	13.96
Virginia	323	4,056	7.96
Washington	280	4,189	6.68
West Virginia	185	1,702	10.87
Wisconsin	322	4,863	6.62
Wyoming	36	628	5.73
Total	$17,151	$200,650	8.55%

NOTES:
1. See AFSCME chart "President Reagan's New Federalism: Every State a Loser."
2. State Tax Collections for 1981 (Source: U.S. Bureau of the Census) multiplied by Data Resources, Inc. projection of state and local government revenue growth.
3. Column 1 divided by Column 2.

Appendix B

PAST EXPERIENCE

The block grant idea is not new. It has been discussed and tested over many years. Now that it is being pressed with such vigor, it is essential to look back at the nation's experience with block grants in areas including health, crime prevention, community development, social services and employment. That experience sheds light on the problems that are likely to arise with new block grants.

Included here are brief descriptions of past block grant programs, as well as a commentary from the New York **Times** on some of them.

THE NEW YORK TIMES - Friday, March 20, 1981

Block Grants

By Andrew H. Mott

WASHINGTON — In addition to seeking a cut of more than $40 billion in domestic programs in the fiscal 1982 budget, President Reagan has proposed a large-scale shift to the use of block grants. He would shift responsibility for more than $15 billion in education, social, and health services to state and local governments.

Arguments for decentralizing programs are familiar; The Government has grown too large, inefficient, unresponsive. Because local and state governments are closer to the people, they are familiar with local needs, can develop responsive programs, and are more accessible and accountable to the citizens than are Federal agencies.

But before agreeing to a further shift to block grants, the country should look at the last decade's experience with four block-grant programs — experience that is enough to make anyone skeptical about a greater shift in this direction.

State administration of the first block-grant program — Law Enforcement Assistance Administration grants to the states — was often criticized by minorities and conservative institutions as wasteful, ineffective, unresponsive. When Jimmy Carter abolished it in 1980, there was little regret among residents of crime-ridden neighborhoods.

The early problems of the Comprehensive Employment and Training Act are well-known. Many local governments passed over minorities and the long-term unemployed, and instead brought ineligible people onto city and county CETA payrolls until Federal standards and enforcement were strengthened.

The (Title XX) state social services block grant also suffers severe problems. The Reagan transition staff found that Federal officials could not answer even the most basic questions about the $3 billion program's effectiveness and impact, because governors have steadfastly resisted an evaluation of the program, apparently fearing it would uncover questionable spending, effectiveness and accountability.

The $4 billion Community Development Block Grant program also has been heavily criticized. After evaluating 36 jurisdictions, the Working Group for Community Development Reform, a coalition of 75 organizations, concluded that many local governments are unable to plan and implement programs to achieve the primary objectives set by Congress. The group identified several constraints to the block-grant approach: Overseeing a massive decentralized program without on-site, independent performance monitoring is difficult; the distribution of funds by formula, rather than competition, creates a sense of entitlement among local officials, causing them to resent even the most basic Federal standards; the stress on local flexibility strengthens this resistance to national standards and priorities, leaving the program vulnerable to pressure against spending funds to benefit politically weak lower-income people.

The programs that President Reagan proposes to decentralize are the very ones that would be most endangered by local and state government control. They were developed after it became absolutely clear that local and state officials were not addressing fundamental education, health, and social needs. Included in the Reagan proposals are energy assistance to low-income people, the remainder of the "war on poverty," family planning, community and mental health services, and clinics for migrants and black-lung victims. Education block grants would wipe out the emphasis on schools that serve poor children, and eliminate special treatment for bilingual education and desegregating schools.

Considering local politics, the likelihood of few Federal regulations, and the competition for new block-grant funds that would, in real dollars, be cut almost 40 percent, how responsive is Texas likely to be to migrants' health and bilingual education needs? How fairly would Mississippi address blacks' needs? Is Kentucky likely to support black-lung clinics? Will Chicago suddenly become responsive to the needs of desegregating schools? Will the Michigan and New York legislatures look with new sensitivity on the needs of Detroit and New York City? What state is likely to give priority to legal services and energy assistance for the poor in the face of middle-income demands and vested interests?

If there are no national standards, the fuhds will be diverted from the nation's most-pressing needs, and there will be major problems of program effectivensss and public accountability.

Andrew H. Mott is vice president of the Center for Community Change, which provides technical assistance to community groups representing low-income people.

PAST EXPERIENCE

LEAA

The Law Enforcement Assistance Act (LEAA), the first block grant program for criminal justice, was enacted by Congress in 1968 to reduce crime and improve the criminal justice system in the wake of political assassinations, urban unrest and campus disorders. It was the first block grant to be started from scratch, not from the consolidation of previous categorical programs.

States were given LEAA block grant funds to support the three components of the state criminal justice system -- police, courts and corrections. Block grant allocations, based strictly on population, went directly to State Planning Agencies (SPAs) once the Justice Department approved the state's comprehensive plan for law enforcement.

In general, LEAA was heralded as a virtually unconditional aid program which would help states and localities address criminal justice problems without interference from the overly bureaucratic, inflexible, out-of-touch federal government. By receiving funds directly, it was thought, states would be able to pull together the traditionally fragmented elements of the criminal justice system. While many observers believe that LEAA made a contribution to law enforcement by bringing together representatives of the different components of the criminal justice system, there is no dispute that the program did little to reduce crime in the United States.

Initially, the key assumption was that the more funds available, the greater the possibility of reducing crime. This did not prove true. Crime increased dramatically during LEAA's history, suggesting that crime is a deep-rooted community and social problem that cannot be solved with government financial intervention alone. A statistical analysis prepared by the Congressional Budget Office (CBO), based on data for 1960 through 1976, indicates that the level of crime is closely related to the size of the youth (ages 16 to 24) labor force and associated unemployment.

As LEAA funds made up only about 5% of a state's entire criminal justice budget, LEAA provided little leverage to influence broader state actions. LEAA might have made a substantial contribution to the criminal justice area, however, by conducting and encouraging innovative research, experimentation and evaluations. Unfortunately, LEAA seems to have failed in that regard. The Justice Department estimates that less than 3% of 1978 block grant funds supported innovative programs.

If innovative programs to reduce crime and establish state criminal justice systems were not the crux of LEAA block grant funding, what was the benefit from the millions of federal dollars given to the states? The cities received only 52% of block grant funds, even though they had 83% of all reported crimes. Conversely, the counties received 48% of funds with only 17% of all reported crimes. Although the Advisory Commission on Intergovernmental Relations (ACIR) reports that high crime areas got a higher share than other areas, this was mostly due to the federal guidelines which established specific crime reduction programs in high crime areas, rather than to state action.

Comments by many state and local officials documented in a 1978 report by the 20th Century Fund confirm their problems with LEAA red tape and bureaucracy at the federal and state levels. This block grant, designed to provide flexibility, acquired a reputation of being less flexible than categorical programs. Critics report that the main product of LEAA was the establishment of a rigid bureaucracy -- 4,000 people at the Justice Department and within the SPAs and Regional Planning Units (RPUs) -- which caused numerous administrative problems. For example, even though states had the freedom to establish their own funding processes within certain parameters established by the federal office, delays were constant. Moreover, changes in leadership and policy at the federal level -- LEAA had five administrators within seven years, each with his own philosophical and administrative approach -- contributed to changes at the state level.

Local governments were required to participate in the planning process, so most SPAs set up Regional Planning Units (RPUs), and by 1975, there were 445 regional planning units in 43 states. However, RPUs made planning subgrants to localities in only 11 states, and the Justice Department never provided significant national direction to the RPUs.

RPUs were required to operate under the supervision of a board made up of local government officials, criminal justice agencies and the public. According to the 1977 ACIR report, police constituted the largest group on these boards, and the public members were the "least represented" and the "least influential."

Moreover, it is evident that throughout the history of this block grant, SPAs maintained control of the LEAA funds. Only rarely did citizen organizations obtain grants from SPAs, and then the funds received were small. As LEAA regional offices and SPAs became more sophisticated, there was a general tendency to place more specific guidelines on RPUs. This sophistication also led to increased representation of criminal justice agencies on regional planning boards, thus diluting the influence of elected officials.

Another problem was that Congress constantly changed priorities for the LEAA program. In 1971, corrections was the main concern; in 1973, crime control; and by 1974, juvenile justice. As seems endemic to block grant efforts, there has been little evaluation, and thus little measurement, of the successes and failures of these program efforts.

It is clear, however, that the federal priorities did little to encourage states to establish innovative approaches. On the average, states used almost half of their annual block grant appropriations to continue ongoing programs, making it very difficult for the SPAs to respond to changing local needs or federal policy direction.

Throughout this process, as the states consolidated their control, the Justice Department failed to provide sufficient direction or leadership. In 1978, CBO recommended that Justice place greater emphasis upon building evaluation into programs and projects before they were started, but little changed.

It was partially in reaction to this maze of problems and difficulties that Congress established changing priorities (as mentioned above) and began to earmark funds for different purposes. This attempt to attain greater accountability, however, did not produce discernible results.

In conclusion, the LEAA block grant was beset by a large number of administrative and programmatic difficulties, and there is little evidence that this block grant made a difference. For the most part, funding went to very traditional sources, and states spent limited resources on innovative solutions to local problems. In addition, little attention was given to citizen participation or to the all-important area of civil rights. In fiscal year 1981, no funds for LEAA grants were included in the federal budget.

PAST EXPERIENCE

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The Community Development Block Grant (CDBG) program was enacted into law in 1974, as Title I of the Housing and Community Development Act of 1974. It replaced several HUD categorical programs -- including urban renewal, Model Cities, open space, water and sewer grants and code enforcement -- with a large, flexible block grant to local governments.

The program represented an uneasy compromise between the Ford Administration, which had sought a revenue sharing approach with virtually no federal controls, and the Congress, which was determined to enforce certain federal priorities and safeguards. The result was a statute which left local governments with broad discretion in programming, but which also established certain federal priorities and safeguards.

The Community Development program includes a number of important provisions and safeguards:

- all funds must be spent on specifically eligible activities;
- all funds must be spent on projects which benefit lower income people, address slum or blight conditions or meet other urgent needs; and the principal beneficiaries of CDBG spending must be lower income people;
- local governments must comply with civil rights, relocation and other federal standards;
- there are citizen participation standards (which were weakened in 1981) and an administrative complaint procedure.

Under the program, all cities over 50,000 people and all counties with populations over 200,000 (excluding their larger cities) are entitled to receive an annual block grant for an amount which is set on the basis of a jurisdiction's population, poverty and other factors. Until the law was amended in 1981, however, release of the funds was contingent upon HUD approval of a relatively detailed application. Furthermore, unlike the bigger cities and counties, smaller jurisdictions and rural areas had to compete for funding under the "Small Cities" CDBG program. They had to submit applications which HUD evaluated on the basis of a rating system which took local needs and the potential of the proposed program into account. The size of a Small Cities CDBG grant was not set by formula.

On the basis of problems which emerged during the first several years and a number of program evaluations, including General Accounting Office studies, there were a number of changes in the program during the period from 1977-1980. These included statutory changes with regard to the targeting of funds to benefit lower-income people and strengthened citizen participation standards. They also included clarification of the statute's housing assistance requirements and citizen participation and other federal safeguards.

Then, in 1981, following the Reagan Administration's initiative, the Congress reversed its direction and greatly increased local discretion. First, it eliminated the CDBG application and review by A-95 agencies and HUD. Secondly, it reduced citizen participation standards, eliminating the participation plan and the multiple public hearings.

Opinions vary on how well this block grant has reconciled local priorities and national objectives. The Brookings Institution monitoring report of 1980 argues that local preferences have dominated program plans in the CDBG program, but does not attempt to judge the program in terms of its economic or social success. The National Citizens' Monitoring Project on CDBG reports that many jurisdictions have written off their most severely blighted and low-income areas for CD projects and have had severe capacity and performance problems.

General Accounting Office studies, including one issued April 30, 1981, argue that greater federal oversight and guidance are needed to ensure that national goals are met and that fraud, waste and abuse are minimized. The most recent GAO study specifically pointed to the need for:

- better targeting to geographic area;
- a narrower definition of what projects are eligible for CDBG funds;
- the need for more specific information and greater verification of whether the funds are, in fact, being used to benefit the income groups and areas which are cited in the applications;
- the need to strengthen federal monitoring to minimize fraud, illegality and ineffective programming; and
- the need to improve local governments' fiscal management and reporting of block grant expenditures.

In its August 30, 1978, report **(Management and Evaluation of the Community Development Block Grant Program Need to be Strengthened)**, GAO pointed to the importance of the application, the Performance Report and HUD's on-site monitoring and technical assistance.

The Working Group for Community Development Reform's evaluation of CDBG in 43 jurisdictions stressed similar concerns:

- CDBG applications should have sufficient information to provide an adequate basis upon which city and county councils, local citizens and the federal government can understand and evaluate how the funds are to be spent and what their likely impact is;
- similarly, reports on performance should provide sufficient information to enable council members, citizens and HUD to understand how funds have been spent and to assess how well a jurisdiction has performed under the program and whether it has complied with statutory requirements;
- the federal government should develop technical assistance, monitoring and evaluation systems which help strengthen the capacity of local governments to set goals, pursue those goals and evaluate their own progress; and
- the federal oversight responsibility should include sufficient reporting, auditing and on-site monitoring to guard against mismanagement, fiscal irregularities and illegal use of CDBG funds.

It is in light of these findings that the Coalition is concerned about the 1981 Amendments mentioned above, as well as the replacement of the competitive "Small Cities" program with a very loose block grant to the states for rural areas and smaller municipalities.

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PAST EXPERIENCE

CETA

The Comprehensive Employment and Training Act (CETA) enacted in 1973, consolidated federal categorical employment and training programs administered by the Labor Department into a special revenue sharing program administered by state and local officials, called prime sponsors. While providing funds to prime sponsors to design their own programs, CETA retained basic federal standards and directives.

CETA is a good example of a block grant approach that proved too loose, causing Congress to intervene and impose further restrictions and federal standards. Many of CETA's problems resulted from this identity crisis, as well as the Labor Department's unwillingness to enforce CETA's numerous federal strings.

CETA was to have been a major step towards decategorization of federal employment and training efforts. The program got off to a poor start, however, as the Department of Labor (DOL) assumed such a flexible role that it provided little federal guidance or technical assistance. From the beginning, DOL seemed more than willing to bend its regulations in order to get resources to prime sponsors. According to studies by the Advisory Commission on Intergovernmental Relations (ACIR), DOL regional offices approved all prime sponsor plans in the early stages of the program and returned few for changes.

A further problem was DOL's inconsistent policy vis-a-vis prime sponsor autonomy. At times, the department adopted a hands-off policy toward prime sponsor decisions; at other times, it demanded specific responses to federal initiatives. Combined with the lack of technical assistance, this led local governments to go off in their own directions. With the country in a severe economic recession in FY 1975 -- unemployment had jumped from 5.5% to 9% -- DOL and Congress increased CETA funds and expected quick results from the localities. But the emphasis on short-term goals precluded effective planning and coordination.

By 1978 it was clear that DOL's lack of control was causing major management problems, as Congress received extensive reports of fraud and abuse in local CETA programs. There also was evidence that the original intention of serving those "most in need" had been thwarted.

In enacting the 1978 CETA reauthorization, Congress sought to ameliorate some of the program's problems. In some cases, such as the tightened eligibility and wage standards and the time limit on an individual's participation in the program, the changes did alter the program for the better. In other areas, however, such as the extensive public participation provisions, Labor Department enforcement continued to be lax. In addition, CETA's public image was sufficiently marred by 1978 that the real improvements in the program were never fully recognized, making CETA an easy target for the Reagan budget-cutters. CETA funding peaked at over $10 billion in 1978 and then began a decline that left the program at around $4 billion in fiscal 1982.

CETA's original targeting language was very weak. Because mostly white, educated males were benefitting from the program, particularly the public service employment component, Congress, in the 1978 reauthorization, strengthened CETA's poverty focus by adopted amendments targeting program services on the long term unemployed from low-income families.

These changes also followed reported abuses such as patronage hiring of ineligible workers in some large cities, as well as estimates that 40-50% of CETA funds were being substituted for state and local funds. So in addition to the tighter targeting and eligibility criteria, the 1978 amendments included stricter requirements that CETA jobs and services be in addition to, and not in place of, local efforts. Other 1978 changes, such as the time limit on CETA participation and requirements that public service employment programs include a training component, were aimed at improving participants' ability to move into unsubsidized employment.

According to a General Accounting Office (GAO) report, DOL auditors were overruled 83% of the time by the Employment and Training Administration, and DOL did not attempt to uncover large abuses. It was necessary, by 1979, to create an Office of Special Investigation to look into the CETA program. Of the 450 prime sponsors, however, only 70 were completely audited by late FY 1981.

CETA was the first block grant to emphasize citizen participation, requiring prime sponsors to establish planning councils that were broadly representative of the community. The councils were to advise the prime sponsors as to which projects were to be funded and who would be served.

ACIR reports that planning councils were fairly representative in most areas -- about 35% of the members were from client groups or community based organizations, 25% from business and labor, 15% from educational institutions, 15% from local officials and 10% from other groups -- though there is little documentation on the sex, race, handicap or age makeup of councils. What is unclear, however, is the extent to which the councils actually participated in the CETA planning and funding process. Reports from community organizations indicate that the councils usually "rubber stamped" decisions already made by prime sponsors and CETA staff -- decisions all too often made for political reasons.

Citizens and community organizations have had especially severe difficulty gaining access to the planning and implementation of CETA programs in "Balance of State" prime sponsorships, particularly in rural and less populated areas. These problems are caused by a combination of geographical distance and lack of political clout at the state level, and they reflect the difficulties typically encountered with state-administered block grant programs.

In the area of civil rights, even the original CETA legislation contained unequivocal standards prohibiting inequities in selection or treatment on the basis of race, color, national origin and sex. In this area, too, however, DOL resolved conflicts in favor of a more limited federal role and greater local discretion, and local officials have not been effective in enforcing nondiscrimination. In the 1978 amendments, Congress adopted provisions to protect equity of employment conditions and to assure affirmative action.

In evaluating local prime sponsors, DOL appears to have been inconsistent, with field staff emphasizing different issues in different jurisdictions. As indicated above, despite the clear statutory mandate to monitor compliance with the law and regulations, DOL has basically avoided oversight and has not demanded strict adherence to federal standards.

To summarize, DOL has viewed CETA as a block grant program which limited the federal role and emphasized local discretion and control. As a result, many feel that DOL bears responsibility for seriously undermining the standards and requirements contained in the law and regulations.

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PAST EXPERIENCE

GENERAL REVENUE SHARING

General Revenue Sharing was created by Congress under the State and Local Fiscal Assistance Act of 1972. Reauthorized in 1976 and 1980, this program has appropriated billions of dollars to 39,000 state and local governments. Until 1981, states received one-third of the federal funds and localities two-thirds. In 1980, Congress reauthorized only monies for localities through 1983 -- approximately $4.5 billion each year.

GRS was originally created with several broad restrictions on the use of federal money. Under changes made in 1976, eligible governments continue to receive revenue sharing payments automatically and may use them for virtually any purpose. Such a broad mandate to local jurisdictions seems to have stretched the decentralization of the federal government to its limit.

Although much broader in scope than the other block grant programs established by Congress since 1966, the General Revenue Program shares many of their problems.

Originally GRS was viewed as a catalyst for state and local changes. Although General Revenue Sharing at its peak constituted only 3.14% of state and local general monies, the program was seen as the answer to the fiscal imbalance that existed on the state and local levels. But, according to the Congressional Research Service (CRS), the small amount of money available and the lack of incentives prevented GRS from inducing state and local governments to cope with fiscal problems such as declining tax bases, under-funded pension systems, wasteful uses of land and energy and fragmented governmental structures.

Studies conducted by local, state and national monitoring groups since 1972 clearly document that localities instead used GRS funds to upgrade floundering programs and facilities. State and local governments spent from half to two-thirds of revenue sharing funds on public goods and services. Approximately 30% was used for tax reduction and debt retirement and only about 5% was used to add to cash balances and services. No reliable study exists, according to CRS, to suggest that GRS has stimulated spending by state and local governments with "inadequate" levels of services.

The initial legislation required local governments to prepare planned and actual use reports, but, according to GAO, these have proven inadequate, this is because once GRS funds are entered in the general accounts of state and local governments, they become indistinguishable from other funds. Since 1972, the federal government has played a minor role in holding states and localities accountable for the GRS expenditures. The Office of Revenue Sharing (ORS) has constantly taken a noninterventionist posture on GRS. It was not until civil rights groups forced ORS to respond to major civil rights complaints that it took a more active role. Not until 1976 was there a major effort to expand the nondiscrimination clause of GRS and set up specific timetables for ORS action.

The 94th Congress enacted amendments to GRS that established extensive hearing and compliance procedures to deal with discrimination. In order to demonstrate compliance with the nondiscrimination provisions of the Act, a recipient government must demonstrate by "clear and convincing" evidence that the program or activity over which an allegation of discrimination has been made is not funded in whole or part with revenue sharing funds. Although little data exists on the results of this expanded effort, it has been reported that there has been a sharp improvement in ORS's administrative procedures for dealing with discrimination complaints.

After 1976, all priority expenditure categories were eliminated. Recipient governments were simply required to report to the Secretary of the Treasury on how funds were spent. Despite other tight federal requirements concerning the timetable for use of funds, auditing requirements and accounting procedures to be followed by states and localities, the federal government did not aggressively oversee the GRS program.

It has been stated that ORS too often relied on complaints from citizens about the use of funds and adherence to GRS provisions, rather than building its own capability to conduct compliance reviews in the field. Not until 1977 did ORS conduct reviews in communities and significantly expand its compliance staff. The national policy environment permitted state and local officials to establish their own approaches.

Citizen participation has always been recognized as an important aspect of the GRS program. The original act required recipient governments to inform citizens about uses of shared revenue by publishing reports in a local newspaper. In the 1976 reauthorization amendments, the importance of the citizen participation process was enlarged. Recipient governments were required to hold two public hearings on GRS unless there was a specific waiver from the Treasury Secretary. One hearing, which took place before the locality's budget was presented to the legislature, was on the proposed use of the GRS funds. The other hearing gave citizens the opportunity to comment on the proposed uses of GRS funds in relation to the government's entire budget.

According to most knowledgeable sources, citizen participation had some impact on GRS allocations, but it was not nearly as important as other factors in the local budget process. Although ORS encouraged citizen participation, it made little attempt to enforce this provision. Reports done by The Brookings Institution and the Survey Research Center indicated that cities holding GRS hearings were just slightly more prone to fund health and social service programs than those that did not, whereas counties that held hearings allocated less for health and social services. Not all of the active citizens desired more social services, nor were social action groups active in many communities. It is clear that despite citizen involvement, state and local officials determined whether citizens' suggestions would be implemented.

In conclusion, it is evident that the General Revenue Sharing Program has been the most decentralized block grant program ever enacted by Congress. Throughout the years, federal oversight and compliance requirements have been minimal, and this has made it difficult to assess the success or failure of the program. It is apparent, however, that the General Revenue Sharing Program has done little to change the fiscal inequities that exist at the state and local levels or the setting of program priorities by elected officials.

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314(d) PARTNERSHIP FOR HEALTH

Congress' original intention in merging nine health programs into the Partnership for Health Act in 1966 was to assist the development and expansion of public health services at the local level. Unfortunately, there is very little evidence that this attempt at giving flexibility and control back to the states worked.

The enabling legislation placed very few restrictions on the states on the use of this block grant money. The act required only that at least 15% of a state's allotment be made available to the state mental health authority, and that at least 70% be made available for "services to communities." Congress predicted that 314(d) would be a model program with increased funding levels at the state level.

Many factors contributed to the demise of 314(d) as an innovative health plan. With administrative decentralization came a lack of national interest and funding. Because the program never received a large funding increase from Congress, 314(d) funds accounted for no more than 3% of total reported state health department spending. Throughout its history this block grant barely kept pace with inflation, and funding areas cut its last few years.

All indications are that the flexibility that states received with the block grant funds did not promote changes in the services or administration of health programs. Smaller state needs could be addressed, but there was little room for broader, more innovative approaches. As reported by ACIR, the available data imply an absence of significant departures from previous federal categorical programs. Rather, funds served to fill small gaps in federal funding.

Nevertheless, 30 of the 44 state administrators of 314(d) surveyed by ACIR preferred the flexibility of this approach, although they cited the following disadvantages: (1) lower and uncertain funding; (2) difficulty in obtaining political support; and (3) an inability to make major changes in funding patterns. Interestingly, there were no evaluations that indicate whether or not the recipients of health services believed that they were better served.

Poor performance by HEW resulted in little or no improvement as a result of 314(d). Regional offices operated independently, and there was almost no direction from the central office except in interpreting policies and regulations. Federal efforts to communicate the evolving direction of the program were minimal and were reduced further when a simplified state plan was introduced in 1970. This lack of oversight was reinforced by an HEW regional office awareness that state financial ability to transfer funds between budget categories made accountability provisions virtually unenforceable.

Along with the lack of control over state plans, technical assistance, monitoring, auditing and program evaluation also diminished. The accountability mechanisms of the legislation became all but buried. The lack of available detailed data continued. The only remaining check and balance system was the state budget process. Forty-three states reported to ACIR that block grant funds were included in the regular budget review process. It was not evident, however, that interested parties at the state level were sufficiently aware of or involved in this budget process to influence health departments in the use of 314(d) funds. The first complete data on uniform program reporting revealed little shifting of priorities from the 1960s categorical programs. Despite the congressional hopes for innovation and local flexibility, state health directors maintained almost total control over the block grant funds.

Evaluations were rarely conducted. In the first seven years of the program, only one evaluation was done. There has never been an evaluation of service delivery, nor any way to track funds through the states. The 314(d) administration has never been subjected to an audit, and very few state programs have been audited. Even in those instances when states were found to be out of compliance, the central office never permitted withholding of funds.

This lack of accountability and evaluation, and the almost total state discretion with these funds, made it difficult to gauge the local impact of 314(d). The legislation mandated that funds be used to "make a significant contribution" toward providing and strengthening public health services" in localities, and that they be made available to other agencies to secure "maximum participation" of local agencies and groups. However, there is little evidence that this happened, and the regulations failed to define what would be a significant contribution to or achievement of maximum local participation. In conclusion, national, sstate and local health agencies did not work together on the 314(d) program. As the block grant program continued, state health departments established bureaucratic control, and the national and local governments lost interest or found few ways to influence state health programs. There is no evidence that recipients were better served as a result of this block grant.

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Title XX

Title XX of the Social Security Act was an approximately $3 billion federal program that reimbursed states for costs incurred in providing social services to low income persons. The program operated as a block grant to states, with broad federal guidelines and maximum decision-making authority at the state level. Title XX consolidated and replaced the authorizations for services to welfare recipients previously found in Titles IV and VI of the Social Security Act.

Although Title XX did not create a new program, it both made significant changes in the way social services were provided to low income persons and expanded eligibility for social services. The law required at least half of each state's federal expenditures to be used for services to AFDC, SSI, or Medicaid recipients. However, the remaining funds could be used to provide services to anyone whose income was below 115 percent of the state's median income for a family of four, adjusted to actual family size. Three types of services -- information and referral, family planning and protective services -- could be provided to anyone needing the services, regardless of income.

Title XX established five broad goals (which are retained in the new Social Services Block Grant):

- achieving or maintaining economic self-support to prevent, reduce or eliminate dependency;
- achieving or maintaining self-sufficiency, including reduction or prevention of dependence;
- preventing or remedying neglect, abuse or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating and reuniting families;
- preventing or reducing inappropriate institutional care by providing for community-based care, home-based care or other forms of less intensive care; and
- securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

All services provided by a state were to be tied to at least one of these goals, and at least one service for each goal was to be be provided. Further, Title XX required states to offer at least three services for aged, blind or disabled people receiving SSI; and to provide family planning services to all AFDC recipients who requested them. Beyond these requirements, states were free to determine their own mix of services based upon a needs assessment and a mandatory planning process which, at the time of Title XX's enactment, was heralded as one of the most significant aspects of the new law.

One of the major innovations of the Title XX program was the option for states to serve not only low income persons who were already receiving federal assistance (SSI, AFDC and Medicaid), but also individuals and families with incomes within state-established limits, but below 115% of the state's median income for a family of four. States were required to impose reasonable fees for persons whose income exceeded 80% of the state's median income, and states had the option of imposing fees for persons with lower incomes.

When Title XX was enacted in early 1975, it inherited a $2.5 billion ceiling that had been adopted by Congress in 1972 in response to a tremendous increase in federal spending for social services during the previous five years. For states not yet at their Title XX ceiling, the availability of federal funds served as a catalyst to develop and expand their programs.

As more and more states spent all of their Title XX funds, pressure was exerted on Congress to raise the Title XX ceiling. Congress responded by authorizing a series of increases in the Title XX ceiling.

Still, Title XX appropriations did not keep pace with inflation. The $2.5 billion cap on Title XX imposed in 1972 would equal about $5.2 billion in inflated 1981 dollars. States increased spending for social services from $600 million in FY 1972 to $1.5 billion (est.) in FY 1981, a real increase of about $244 million, or only about 10% of the federal loss.

In its six years, the Title XX program experienced a variety of problems that raise serous questions about the effectiveness and efficiency of a block grant as the primary vehicle for the provision of social services. These problems include a critical lack of data about what Title XX funds actually purchased, unrealized expectations of how citizens would participate in the Title XX planning process, inadequate program and administrative accountability and serious issues of equity relating to the distribution of funds. All of these problems were compounded by the $2.5 billion funding ceiling, which received no allowance for inflation between 1972 and 1979. The $2.9 billion appropriation for FY 1981 was cut by 17%, to $2.4 billion, under the 1982 Budget Reconciliation Act, which also established the new Social Services Block Grant.

The lack of hard data on exactly what was bought for the Title XX yearly expenditures plagued the program from its inception. At the national level there was a continuing need for improved reporting of the ways in which federal dollars were spent, who received which services, how much was spent for administrative costs, etc. Equally serious was the lack of data useful to the states. A 1978 National Governors' Association study on Title XX repeatedly emphasized that "state agencies need tighter and more accurate data."

One of the fundamental assumptions of the Title XX legislation was that citizen participation would serve as a means of accountability. The vehicle for citizen participation was the Comprehensive Annual Services Plan (CASP) which spelled out what services were to be provided, to whom and in what parts of the state. Citizens were to be given at least 45 days to submit their comments regarding the CASP; however, there was no mandate that the final state plan incorporate or reflect the citizen input received by the state agency.

An analysis of citizen participation in Title XX programs conducted in 1978 found that while the overall level of participation remained above the pre-Title XX levels, public participation declined sharply after the first year of implementation. The fact that most states were spending all of their Title XX funds -- and therefore were unlikely to fund new services -- probably discouraged citizens from trying to influence service priorities.

Title XX decision-making within the states became increasingly controlled by the state budget offices, the single state administering agency and the state legislature, further limiting citizen input. An Urban Institute study expressed doubts that public participation experienced under Title XX was representative of either consumers or the general public. This study found that members of the public who participated in Title XX priority-setting generally represented the special interests of providers or particularly articulate population groups.

When Title XX went into effect in October, 1975, it placed major emphasis on developing improved planning and management systems at the state level. It gave states the flexibility, within available funding, to reorder existing programs and reallocate resources to create a comprehensive social services system.

The promise of comprehensive planning through Title XX never materialized. The NGA study concluded that experience with Title XX raised questions about a state's ability to conduct a comprehensive assessment of the need for services. HHS's own 1980 report supported this conclusion, noting that states found needs assessments costly and burdensome, particularly in view of funding limits.

The lack of comprehensive planning at the state level was matched, if not exceeded, by a lack of evaluation of Title XX expenditures. The NGA study reported that state officials viewed the inability to evaluate program results as one of the major stubmling blocks to better programs. However, allocation of staff and resources to program evaluation did not always match the abstract commitment to evaluation, despite the fact that the states had considerable discretion to expand their staffs devoted to this function. A 1978 survey indicated that more than half the jurisdictions administering Title XX neither completed nor undertook a single study of the effectiveness of the programs they were administering.

Allocation of funds and/or services at the state level raised concern that individuals and/or groups most in need of service were not, in fact, receiving their fair share. In a recently completed exploratory study of the substate allocation of Title XX services, the National Association of Social Workers found that rural areas, blacks and poverty populations generally receive less than their proportionate share of service dollars.

As an example of a block grant, the Title XX program raises serious questions about the willingness and capability of the states to plan, evaluate and manage complex social service systems. While Title XX served as a conduit for federal funds and brought increased services to our most vulnerable families, it did not fulfill its potential as a vehicle for improved social service delivery at the state level.

The much heralded needs assessment process and related mandate for citizen participation did not, in reality, significantly change the decision-making process within the states, nor alter the traditional allocation of resources. While the services were theoretically being delivered "closer to the people," the funding source of the programs (the Congress) has little useful data on the extent to which the monies being expended have met the five program goals specified in the legislation.

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